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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

EXCHANGE OF LETTERS ON ISSUES CONCERNING THE NEGOTIATION OF A NORTH AMERICAN FREE TRADE AGREEMENT

MAY 1, 1991

Printed for the use of the Committee on Ways and Means by its staff

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PREFACE

This document is printed for the use of the Members of Congress, their staffs, and the interested public. It includes the response of President Bush dated May 1, 1991, to issues raised in a joint letter dated March 7, 1991, from the Honorable Dan Rostenkowski, Chairman of the House Committee on Ways and Means and the Honorable Lloyd Bentsen, Chairman of the Senate Committee on Finance, and in a letter dated March 27, 1991, from the Honorable Richard A. Gephardt, Majority Leader of the U.S. House of Representatives concerning the negotiation of a North American Free Trade Agreement (NAFTA). On March 1, 1991, the President requested the extension of Congressional fast track procedures for the implementation of trade agreements, including the proposed NAFTA. Those procedures will automatically extend for an additional two-year period for trade agreements entered into before June 1, 1993, unless either House of Congress disapproves extension by May 31, 1991.

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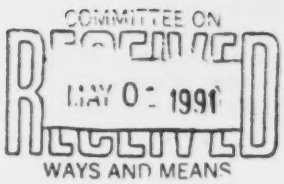
- Joint letter from Hon. Dan Rostenkowski, Chairman of the House Committee on Ways and Means, and Hon. Lloyd Bentsen, Chairman of the Senate Committee on Finance, dated March 7, 1991, to the President 87
- Letter from Hon. Richard A. Gephardt, Majority Leader of the U.S. House of Representatives, dated March 27, 1991, to the President 89

THE WHITE HOUSE

WASHINGTON

May 1, 1991



Dear Mr. Chairman:

Through the better part of this century, successive Congresses and Administrations -- Republican and Democratic -- have worked to open markets and expand American exports. This partnership has resulted in unparalleled growth in world trade and huge economic benefits for the United States. Opening foreign markets means economic growth and jobs for all Americans.

Historically, the fast track procedures established by the Congress have served us well. On March 1, I requested an extension of fast track so that we could continue to realize increased economic growth and the other benefits of expanded trade. The fast track in no way limits the ability of Congress to review any agreement negotiated, including the Uruguay Round or a North American Free Trade Agreement (NAFTA). If Congress is not satisfied, it retains the unqualified right to reject whatever is negotiated. But refusing to extend the fast track would end negotiations before they have even begun and relinquish a critical opportunity for future economic growth.

Initiatives to open markets will enhance the global competitiveness of the United States and create new opportunities for American workers, American exports, and American economic growth. The Uruguay Round offers a vital opportunity to eliminate barriers to our goods, investment, services, and ideas. A NAFTA offers an historic opportunity to bring together the energies and talents of three great nations, already bound by strong ties of family, business, and culture. Prime Minister Mulroney and President Salinas are both leaders of great vision. They believe, as do I, that a NAFTA would enhance the well-being of our peoples. They are ready to move forward with us in this unprecedented enterprise.

In seeking to expand our economic growth, I am committed to achieving a balance that recognizes the need to preserve the environment, protect worker safety, and facilitate adjustment. In your letter of March 7, you conveyed a number of important Congressional concerns about free trade with Mexico. At my direction, Ambassador Hills and my Economic Policy Council have undertaken an intensive review of our NAFTA objectives and strategy to ensure thorough consideration of the economic, labor, and environmental issues raised by you and your colleagues. The Administration's response is presented in the attached report. Let me emphasize the following:

First, you have my personal commitment to close bipartisan cooperation in the negotiations and beyond. And you have my personal assurance that we will take the time necessary to conclude agreements in which both the Congress and the Administration can take pride.

Second, while economic studies show that a free trade agreement would create jobs and promote growth in the United States, I know there is concern about adjustment in some sectors. These concerns will be addressed through provisions in the NAFTA designed to ease the transition for import-sensitive industries. In addition, my Administration is committed to working with the Congress to ensure that there is adequate assistance and effective retraining for dislocated workers.

Third, based on my discussions with President Salinas, I am convinced that he is firmly committed to strengthened environmental protection, and that there is strong support for this objective among the Mexican people. Because economic growth can and should be supported by enhanced environmental protection, we will develop and implement an expanded program of environmental cooperation in parallel with the free trade talks.

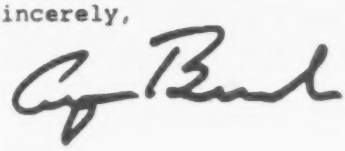
Fourth, President Salinas has also made it clear to me that his objective in pursuing free trade is to better the lives of Mexican working people. Mexico has strong laws regulating labor standards and worker rights. Beyond what Mexico is already doing, we will work through new initiatives to expand U.S.-Mexico labor cooperation.

Thus, our efforts toward economic integration will be complemented by expanded programs of cooperation on labor and the environment. The catalyst for these

efforts is the promise of economic growth that a NAFTA can provide, and the key to these efforts is the extension of unencumbered fast track procedures.

There are great challenges ahead. The world is changing dramatically, as nations move toward democracy and free markets. The United States must continue to open new markets and lead in technological innovation, confident that America can and will prevail in this new and emerging world. By working together, we can negotiate good trade agreements that assure a strong and healthy America as we prepare to meet the challenges of the next century.

Sincerely,



The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

EXECUTIVE SUMMARY

RESPONSE TO ISSUES RAISED IN CONNECTION WITH THE NEGOTIATION OF A NORTH AMERICAN FREE TRADE AGREEMENT

In letters to the President from Chairmen Bentsen and Rostenkowski, and from Majority Leader Gephardt, the Administration has been asked to address a variety of economic, labor and environmental concerns that have been raised about the proposed North American Free Trade Agreement (NAFTA). The Administration's response sets forth detailed action plans for addressing these concerns, as well as views on the economic impact of a NAFTA.

THE POSITIVE ECONOMIC IMPACT OF A NAFTA

- From 1986 to 1990, as Mexico reduced import barriers, our exports more than doubled from $12.4 billion to $28.4 billion, generating 264,000 additional U.S. jobs.

- Under a NAFTA, we can do even better. Mexico still has higher trade barriers than the U.S. Mexico's average duty is 10% compared to 4% in the U.S. Significant nontariff barriers remain. We therefore have much to gain from the elimination of these barriers.

- All three major economic analyses done to date corroborate that the U.S. will benefit from a NAFTA in exports, output and employment.

- We will benefit from Mexican growth: for each dollar Mexico spends on imports, 70 cents is spent on U.S. goods; for each dollar of GNP growth, 15 cents is spent on U.S. goods.

- Further, the resulting economic integration will strengthen the ability of the U.S. to compete with Japan and the EC.

ADJUSTMENT PROVISIONS WE WILL SEEK IN THE NAFTA

- Transition Measures: In order to avoid dislocations to industries and workers producing goods that are import-sensitive, tariffs and non-tariff barriers on such products should be eliminated in small increments over a time period sufficient to ensure orderly adjustment.

  -- In determining import sensitivity, we will rely heavily on advice of the International Trade Commission, the Congress, and the private sector.

  -- We will be prepared to consider transition periods beyond those in the U.S.-Canada FTA.

- Effective Safeguard Provisions: Even where reductions in tariffs and other trade barriers are staged over a lengthy period, there may be isolated cases in which injurious increases in imports could occur. To prevent injury from such increases, we will seek to include in the agreement a procedure allowing temporary reimposition of duties and other restrictions.

  -- This mechanism should be designed to respond quickly, especially in cases of sudden import increases.

  -- Special "snap-back" provisions should be included to address the unique problems faced by producers of perishable products.

- Strict Rules of Origin: We will negotiate rules of origin to ensure that the benefits of a NAFTA do not flow to mere pass-through operations exporting third-country products to the U.S. with only minimal assembly in Mexico.

  -- Rules of origin will impose clear, tough, and predictable standards to the benefit of North American products.

  -- We will seek to strengthen the required North American content for assembled automotive products.

  -- We will consult closely with the private sector and the Congress in designing these rules.

DOMESTIC WORKER ADJUSTMENT PROGRAM

- Since trade barriers on sensitive products should be decreased over a long timeframe, we do not expect immediate or substantial job dislocations.

- Nevertheless, beyond including adjustment provisions in the NAFTA itself, there is a need to assist dislocated workers who may have adjustment difficulties.

- The Administration is committed to working with Congress to ensure a worker adjustment program that is adequately funded and that provides effective services to workers who may lose their jobs as a result of an agreement with Mexico.

- Whether provided through the improvement or expansion of an existing program or through the creation of a new program, worker adjustment measures should be targeted to provide dislocated workers with comprehensive services in a timely fashion.

LABOR ISSUES

LABOR MOBILITY

- We have agreed with Mexico that labor mobility and our immigration laws are not on the table in NAFTA talks, with the possible exception of a narrow provision facilitating temporary entry of certain professionals and managers.

WORKER RIGHTS AND LABOR STANDARDS

- Protections afforded by Mexican labor law and practice are stronger than generally known.

- Mexico's laws provide comprehensive rights and standards for workers in all sectors, including the maquiladoras.

  -- Mexico has ratified 73 International Labor Organization conventions on worker rights, including those on occupational safety and health.

  -- Mexico has a minimum working age of 14 and mandates special protections and shorter working hours for those between the ages of 14 and 16.

- A substantially higher proportion of the Mexican workforce is unionized than is the U.S. workforce.

- While enforcement problems have resulted largely from a lack of resources, a NAFTA would both raise living standards and create resources for enforcing existing laws.

FUTURE U.S.-MEXICO COOPERATION ON LABOR MATTERS

- Memorandum of Understanding: The Secretary of Labor and her counterpart from Mexico are prepared to sign a Memorandum of Understanding providing for cooperation and joint action on a number of labor issues which could be implemented in parallel with our FTA negotiations.

  -- These include health and safety measures; work conditions, including labor standards and enforcement; labor conflicts; labor statistics; and other areas of concern to the United States and Mexico.

- Specific Projects: U.S. and Mexican officials have agreed on joint projects to address specific concerns in the labor sector.

  -- Initial projects include: occupational health and safety; child labor; and labor statistics.

ENVIRONMENTAL ISSUES

MEXICO'S COMMITMENT TO ENVIRONMENTAL PROTECTION

- Mexico has no interest in becoming a pollution haven for U.S. companies.

- Mexico's comprehensive environmental law of 1988, which is based on U.S. law and experience, is a solid foundation for tackling its environmental problems.

- All new investments are being held to these higher legal standards and an environmental impact assessment is required to show how they will comply.

- Enforcement has in the past been a key problem, but Mexico's record has been improving dramatically. Since 1989, Mexico has ordered more than 980 temporary and 82 permanent shut-downs of industrial facilities for environmental violations; the budget of SEDUE (Mexico's EPA) has increased almost eight-fold.

ENVIRONMENTAL ISSUES IN THE NAFTA

- Protection of Health and Safety: We will ensure that our right to safeguard the environment is preserved in the NAFTA.

  -- We will maintain the right to exclude any products that do not meet our health or safety requirements, and we will continue to enforce those requirements.

  -- We will maintain our right to impose stringent pesticide, energy conservation, toxic waste, and health and safety standards.

  -- We will maintain our rights, consistent with other international obligations, to limit trade in products controlled by international treaties (such as treaties on endangered species or protection of the ozone layer).

- Enhancement and Enforcement of Standards: We will seek a commitment to work together with Mexico to enhance environmental, health, and safety standards regarding products, and to promote their enforcement.

  -- We will provide for full public and scientific scrutiny of any changes to standards before they are implemented.

-- We will provide for consultations on enhancing enforcement capability, inspection training, monitoring, and verification.

JOINT ENVIRONMENTAL INITIATIVES

- In parallel to the FTA negotiations, we intend to pursue an ambitious program of cooperation on a wide range of environmental matters.
- We will design and implement an integrated border environmental plan to address air and water pollution, hazardous wastes, chemical spills, pesticides, and enforcement.
- During the design phase of the border plan, there will be an opportunity for public comment and hearings; during implementation, there will be periodic comprehensive reviews.
- We will consult on national environmental standards and regulations, and will provide an opportunity for the public to submit data on alleged non-compliance.
- We will discuss expanded cooperative enforcement activities, such as coordinated targeting of environmental violators.
- We will establish a program of technical cooperation and training, which will include facilitating sharing of technology for pollution abatement.

INFORMED POLICY MAKING AND PUBLIC PARTICIPATION

- We will broaden public participation in the formulation and implementation of trade policy to ensure that efforts to liberalize trade are consistent with sound environmental practices.
- We will appoint individuals to selected trade policy advisory committees who can contribute both an environmental perspective and substantive expertise.
- In consultation with interested members of the public, we will complete a review of U.S.-Mexico environmental issues, with particular emphasis on possible environmental effects of the NAFTA, to enable U.S. officials to consider the results during FTA negotiations and other bilateral efforts.

RESPONSE OF THE ADMINISTRATION

TO ISSUES RAISED IN CONNECTION WITH THE NEGOTIATION OF

A NORTH AMERICAN FREE TRADE AGREEMENT

Transmitted to the Congress
by the President
on May 1, 1991

OVERVIEW

RESPONSE TO ISSUES RAISED IN CONNECTION WITH THE NEGOTIATION OF A NORTH AMERICAN FREE TRADE AGREEMENT

Introduction

Negotiation of a North American Free Trade Agreement (NAFTA) offers an historic opportunity to create the largest market in the world: 360 million consumers and a total output of $6 trillion. Such an agreement would eliminate trade barriers and inefficiencies with our first- and third-largest trading partners, with a three-way trade in 1990 amounting to $236 billion. This opportunity is in part due to a remarkable transformation in Mexico away from statist, protectionist policies toward a more open trade and investment regime.

The President notified the Congress of his decision to proceed with free trade negotiations with Mexico on September 25, 1990. Following further discussions with both Mexico and Canada, the President notified Congress on February 5, 1991 of the decision of all three governments to broaden the negotiations to include Canada, and so to work towards a NAFTA.

Concerns have been expressed about the economic impact of a NAFTA and about such issues as the environment, health and safety, and labor, including worker rights. These issues were raised directly in letters to the President from Chairmen Bentsen and Rostenkowski, and from Majority Leader Gephardt. Each of these issues is addressed below and in greater detail in the papers attached at Tabs 1-4.

Economic Impact of a NAFTA

Experience and economic analysis both show that a NAFTA will result in greater prosperity for U.S. workers, farmers, businesses and consumers. The factual record since 1986, when Mexico began opening its market, shows what can happen when trade barriers are lowered between the United States and Mexico. From 1986 to 1990:

- Exports to Mexico more than doubled, rising from $12.4 billion to $28.4 billion last year -- nearly twice the rate of overall growth in U.S. exports during this period.

- Manufacturing exports to Mexico went from $10 billion to $22.5 billion.

- Agricultural exports to Mexico -- our fourth largest market for agricultural commodities -- more than doubled to $2.5 billion in 1990.

This expansion of U.S. exports to Mexico has added an estimated 264,000 export-related jobs in the United States. The U.S. Department of Commerce estimates that in 1990, 538,000 American jobs were related to U.S. exports to Mexico.

Further, as a result of increased exports, our trade deficit with Mexico has been cut by two-thirds; excluding petroleum trade, the United States ran a trade surplus of about $2.7 billion with Mexico in 1990.

Under the NAFTA, we can do even better. We can solidify and expand our access to Mexico's growing market. Mexico's trade-weighted average tariff is still 10 percent, 2 1/2 times higher than that of the United States. Moreover, in the absence of an FTA, Mexico would retain the right under international rules unilaterally to raise its top tariff rate back to 50 percent. Significant non-tariff barriers also persist. For example, the volume of our agricultural exports is still less than it could be because restrictive Mexican import licenses still apply to 40 percent of the value of U.S. agricultural exports; trade in some manufactured goods is distorted by licensing and performance requirements.

An FTA can be expected to raise average productivity and real wages in both countries. We can expect to benefit from the economic growth and increased purchasing power of our neighbor. For each dollar Mexico spends on imports, seventy cents is spent on U.S. goods. For each dollar of growth in Mexico, fifteen cents is spent on U.S. goods.

All three major economic analyses that have been done to date corroborate that the U.S. economy will benefit from a NAFTA in terms of exports, output and employment.* Attached at Tab 1 is a discussion of these studies, our assessment of the FTA's projected economic impact on the United States, as well as our assessment of the impact of the FTA on U.S. investment in Mexico.

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* The Clopper Almon Study, commissioned by the U.S. Department of Labor, Industrial Effects of a Free Trade Agreement between Mexico and the USA; the KPMG Peat Marwick Study (Policy Economics Group), contracted for by the U.S. Council of the Mexico - U.S. Business Committee; and the International Trade Commission Investigation Study entitled The Likely Impact on the United States of a Free Trade Agreement with Mexico, requested by the House Committee on Ways and Means and the Senate Committee on Finance.

We will continue to draw on the best analyses during the negotiations. The Administration has asked the International Trade Commission (ITC) to analyze the probable economic effect on specific U.S. industries and consumers of eliminating tariffs and nontariff trade measures between the United States and Mexico. We also have asked for an analysis of the effect of such actions on our trade with Canada.

Further, the ITC is continuing work on a computable general equilibrium model for examining the economic impacts of a NAFTA. We will draw on the ITC's further analyses as well as ongoing work in academia and the private sector. Our goal is to use the best analyses from a variety of sources to help guide us in crafting an agreement that is in this nation's interest.

Beyond econometric analysis, we will rely on the advice of our private sector and the Congress. Econometric models can be useful tools, but their findings must be considered in conjunction with the experience and expertise of our private sector and the Congress.

Jobs, Wage Disparities and Global Competitiveness

Fears that the NAFTA will result in massive job flight or job loss are unwarranted for a number of reasons. First, of the three completed studies described above, one -- the Clopper Almon study -- deals with the impact of an FTA on overall U.S. employment. That study estimates that an FTA would result in net creation of up to 64,000 jobs over ten years, with most of those jobs in the manufacturing sector.

Second, Mexico's economy is 1/25 the size of the U.S. economy. Its exports to the United States amount to only 6 percent of U.S. imports. Therefore, scenarios of mass dislocations resulting from reduced U.S. trade barriers are not realistic. Any concerns in this regard are further reduced given our intention, as discussed below, to seek adequate transition and adjustment measures in the FTA itself.

Third, the United States is already relatively open to Mexican imports. Our average tariff on Mexican imports is under four percent. Further, there are relatively few restrictions on investment in Mexico for export purposes. Thus our firms and workers are already competing directly with imports from Mexico. By contrast, Mexico's average trade-weighted tariff is 2 1/2 times higher than that of the United States and numerous non-tariff barriers exist which limit U.S. exports. Given that our market is already relatively open,

certainly it makes sense to lower Mexican trade barriers to increase our export opportunities.

We would expect some aspects of a NAFTA actually to increase investment in the United States. For example, current Mexican performance requirements compel some U.S. firms to invest in Mexico in order to gain access to the internal Mexican market. If such requirements were eliminated in a NAFTA, some firms could expand their U.S. investment to serve the Mexican market through exports from the United States. In general, increased export opportunities to Mexico mean increased investment in the United States.

Fourth, the mere fact that wages are lower in Mexico does not mean that manufacturing jobs will flee to Mexico. Wage disparities between Mexico and the United States largely reflect the disparity in productivity. Based on per capita output, the average productivity of U.S. workers is seven times that of Mexican workers. Our advantage in productivity results from factors such as education, higher technology, better transportation, communication, and overall infrastructure. Hence, wage disparity by itself is a misleading factor in assessing any potential employment losses.

Fifth, trade liberalization is not a zero-sum game in which the benefit for one side necessarily entails a loss for the other. As noted, Mexican growth contributes to U.S. growth, since 70 cents of every Mexican import dollar is spent in the United States, and 15 cents of every dollar of Mexican income growth flows back to the United States.

Sixth, reduction of barriers on both sides of the border will spur economic integration that strengthens the global competitiveness of U.S. firms. A number of U.S. companies have stated that their Mexican operations have helped or even increased their employment in the United States. By increasing efficiency and lowering the cost of inputs, higher value and higher wage U.S. manufacturing operations will be better positioned to take on competition from Europe and Japan. In this sense, foreclosing the opportunity to negotiate a NAFTA would be a windfall to our European and Japanese competitors.

A 1988 study by the ITC supports this conclusion. The ITC found that the vast majority of responses from 323 U.S. firms stated that their Mexican assembly operations increased the competitiveness of their U.S. production. These assembly operations were integrated with high-wage manufacturing operations in the United States. Most firms indicated that the alternative to moving part of their labor-intensive assembly operations to Mexico, where a substantial amount of U.S. components were used, was to move their operations to the Far East, where fewer U.S. components would be used.

Finally, there are a number of U.S. programs available to assist firms in responding to changes flowing from an FTA. The Departments of Commerce and Agriculture, the Small Business Administration, and the Export-Import Bank are among those that actively promote U.S. exports. Mexico is the largest beneficiary of Eximbank financing, and the U.S. trade center in Mexico is our largest, hosting 1,300 companies from 44 states in trade shows since 1989. We will ensure that such programs are appropriately tailored to meet the needs and opportunities of a NAFTA.

Adjustment Provisions in the NAFTA

Even though we are convinced that the FTA will result in a net positive effect on U.S. employment, we should ensure that the FTA contains adjustment provisions to avert injurious effects or dislocations that may arise as a result of FTA liberalization. Our position on these issues, summarized below, is discussed at greater length at Tab 2.

1. Transition

To allow concerned industries and farmers time to adjust to potential increased competition from Mexico, we will seek a transition period in which sensitive duties and other barriers would be phased out in small increments. As in the case of the U.S.-Canada FTA, the longest transition should be provided for those producers most sensitive to competition from Mexico. The Administration would be prepared to consider transition periods beyond those provided in the U.S.-Canada FTA. In deciding on our negotiating position with regard to each product, we will draw heavily on advice from the ITC, the Congress, and the private sector.

We can expect that Mexico will also want transition periods for sensitive Mexican industries. Although transition rules in that sense serve to delay benefits of trade liberalization, transitions offer important assurances to industries concerned about imports. Coupled with appropriate safeguard mechanisms and rules of origin, we see transition rules as protection against dislocations while still allowing us to achieve benefits of trade liberalization.

2. Safeguard Mechanism

We believe that it is essential to include safeguard provisions in the agreement that allow us to respond effectively and quickly if there are injurious increases in imports under a NAFTA from Mexico or Canada in any industry or farm sector. Moreover, if Mexico and Canada are partly responsible for injury arising from a general import increase,

we must retain the ability to limit Mexican and Canadian products as part of a safeguard action on imports from all sources.

Beyond those general rights, we should have the ability, during a transition period, to act quickly against only Mexico or Canada if injury to some sector is caused by a concession granted in the FTA. We believe such a safeguard mechanism should allow us to suspend temporarily preferential trade treatment accorded under the NAFTA (including reimposition of duties). Producers of perishable agricultural commodities might have particular problems that need special additional mechanisms, such as the kind of temporary "snap-back" provision that is provided in the U.S.-Canada agreement for the first twenty years of that agreement.

3. Rules of Origin

We will seek strict rules of origin in the NAFTA. The benefits of an FTA should flow to the products of countries that are parties to the FTA, and not to other countries' products that have been only slightly processed in North America. We will work with all concerned private sector interests and with the Congress on rules of origin that ensure that Mexico will not become a mere platform for third-country exports.

We should draw on our experience with the strong rules of origin in the U.S.-Canada FTA, recognizing that changes might be necessary to meet trade conditions in Mexico. We believe, for example, that we should seek in the NAFTA to strengthen the required North American content under the rule of origin for assembled automotive products.

Domestic Worker Adjustment Programs

Beyond including adjustment provisions in the FTA itself, there is a need to assist dislocated workers who may have adjustment difficulties. While we are convinced that the best adjustment program is a healthy and expanding U.S. economy, we recognize that effective retraining and adjustment programs facilitate smooth adaptation to ongoing shifts in technology and industrial competitiveness.

The Administration is firmly committed to a worker adjustment program that is adequately funded and ensures that workers who may lose their jobs as a result of an FTA with Mexico will receive prompt, comprehensive, and effective services. Worker adjustment services, whether provided through the improvement or expansion of an existing program or through the creation of a new program, should be targeted to provide

dislocated workers with appropriate services in a timely fashion.

The Administration is committed to working with the Congress to ensure that the objectives outlined above are met and adequately funded. Any needed changes to U.S. law to implement such a program should be in place by the time the agreement enters into force and could appropriately be addressed in legislation implementing a NAFTA.

Labor Mobility

We share the concerns expressed by some in the Congress and private sector that a NAFTA not lead to increased immigration of foreign workers. We believe that current U.S. immigration policy is sound. Accordingly, we do not contemplate any provisions in an FTA that would require changes to our immigration laws, with the possible exception of technical changes to facilitate temporary entry of certain professionals and managers, as was done under the U.S.-Canada FTA. We would consult closely with the Congress even with regard to that limited exception.

Further, we believe that improvement of living standards in Mexico, which an FTA would foster, will encourage Mexicans to seek employment opportunities at home. As President Salinas has stated, "more jobs will mean higher wages in Mexico, and this in turn will mean fewer migrants to the United States and Canada. We want to export goods, not people."

Human Rights

The Salinas government has moved vigorously to curb human rights abuses, establishing in May 1990 the prestigious National Commission on Human Rights. The Commission is politically independent. With strong support from President Salinas and the Mexican public, the Commission has actively investigated cases and worked effectively to reduce all forms of human rights abuses. The Commission has received wide support for its work; its efforts have been applauded by groups such as Amnesty International. In addition, in October 1990, President Salinas announced a twelve-point plan to ensure that the Mexican police respect human rights in their treatment of persons arrested. This plan and the Commission's ongoing work appear to have resulted in a significant reduction in violations over the past several months.

Worker Rights and Labor Standards

Mexico has strong labor protections in its Constitution and laws. The Mexican government also has a strong political commitment to promoting the rights and interests of workers, including increasing standards of living and a safe and healthy workplace. There are, however, enforcement problems, resulting largely from inadequate resources rather than inadequate laws. By promoting economic growth in Mexico, an FTA would generate greater prosperity and resources that Mexico could devote to improving the situation of workers. Further, closer U.S.-Mexico economic cooperation will create opportunities for cooperation on labor matters as well.

A discussion of current labor law and practice in Mexico is included at Tab 3. As this discussion demonstrates, the fundamental rights of Mexican workers are already well-protected in law. These rights and protections include:

- Constitutional and statutory guarantees of the freedom of association and the right to organize, to bargain collectively, and to strike.

- Ratification of 73 International Labor Organization (ILO) Conventions regarding worker rights and labor standards, which in Mexico gives these Conventions the force of law.

- Prohibition of forced or compulsory labor.

- A minimum age of 14 for employment plus special legal protections and shorter working hours for those between the ages of 14 and 16.

- Constitutionally established principles regarding conditions of employment, including a minimum wage, an eight-hour work day, a seven-hour shift for night work, and a maximum work week of six days. The same rights apply throughout Mexico, including the maquiladoras.

Approximately 30 percent of the Mexican workforce is unionized, as is more than 90 percent of industrial production workers in firms with more than 25 employees. Both percentages are substantially higher than in the United States.

Mexican legislation on safety and health sets out substantial protection for workers. In 1978 the Government instituted a major revision of the Federal Labor Law incorporating ILO obligations on occupational safety and health. Revisions provided that the safety of the workplace is the direct responsibility of the employer, who must report

accidents, create health and safety committees to review working conditions, and train workers to prevent job-related injuries. Health and safety regulations are implemented through a federal/state/local system of tripartite commissions which supplement legal provisions, and plant-level committees with equal representation of employers and workers which are responsible for overseeing health and safety on the factory floor.

Future U.S.-Mexico Cooperation on Labor Matters

There are a number of labor areas where Mexico and the United States could benefit from cooperation. As set out fully in Tab 3, we intend to pursue bilateral cooperation on labor issues with Mexico through the framework of the existing U.S.-Mexico Binational Commission (BNC). As a first step in this cooperation, the Department of Labor and the Mexican Secretariat of Labor and Social Welfare are prepared to sign on behalf of their governments, a Memorandum of Understanding (MOU).

This MOU (included in Tab 3) provides a framework for mutual cooperation between the Department and the Secretariat in the areas of health and safety measures; general work conditions, including labor standards and their enforcement; procedures for resolution of labor conflicts; labor statistics; and other areas of concern to the United States and Mexico.

In addition, as indicated in the action plan in Tab 3, U.S. and Mexican delegations have met and have agreed upon specific projects in the areas of occupational health and safety, child labor, and labor statistics.

The understandings reached between the Department and the Secretariat represent significant steps forward in cooperation between our two nations in addressing labor issues of common concern. In conjunction with the agreed specific projects, the MOU and its implementation hold much promise for progress on a number of labor fronts.

We intend to pursue work under the MOU and in the Working Group on labor under the BNC in parallel with our negotiations of an FTA.

Environmental Concerns

Mexico and the United States agree that efforts to increase growth through an FTA should be complemented by cooperative efforts to enhance environmental protection. A

strong economy and a healthy environment can be, and should be, mutually supportive.

Tab 4 outlines Mexico's existing programs for environmental protection, our cooperative efforts to date, and our action plan for the future. A number of key points should be noted.

1. Mexico's Commitment to Environmental Protection

President Salinas has made clear on numerous occasions that Mexico has no interest in becoming a pollution haven for North America. Mexico's comprehensive environmental law of 1988, based in large part on U.S. law and experience, has provided the legal framework for tackling its environmental problems. All new investments are being held to the higher standards set forth in this law, and an environmental impact assessment is required to show how they will comply. But Mexico also needs the economic growth that an FTA would provide to generate resources to transform this commitment into an effective program of regulation, enforcement, and public support.

We recognize that enforcement has in the past been a key problem. But notwithstanding limited means, Mexico's enforcement record has been improving. Between 1989 and the beginning of 1991, the Mexican government ordered some 980 temporary and 82 permanent closures of industrial facilities for failing to comply with environmental laws. In 1990, Mexico made the multi-billion dollar decision to phase out leaded gasoline and to order that all new cars, including over 40,000 Mexico City taxis, be equipped with catalytic converters. The government also shut down all 24 military-industrial installations in the Mexico City area because of potential environmental risks.

Most dramatically, President Salinas announced last month the permanent closure of Mexico's largest oil refinery for environmental reasons. The refinery had been responsible for an estimated 15 percent of Mexico City's industrial air pollutants. The estimated cost of that shut-down is some $500 million and up to 5,000 jobs.

The Mexican government continues to increase resources devoted to enforcement of environmental requirements. The budget of the Mexican environmental agency, SEDUE, has been increased almost eight-fold between 1989 and 1991 (from $5 million to $39 million). In anticipation of a World Bank loan, SEDUE has announced Mexican counterpart funding for 50 new inspectors at the border and 50 in Mexico City.

Given rising environmental standards and increasing enforcement, particularly for new investments, the Mexican government has made clear that firms would be ill-advised to seek out Mexico as a pollution haven for new investment.

2. Addressing Environmental Trade Issues in the FTA

We will ensure that our right to safeguard the environment is preserved in the NAFTA. For example, we will maintain the right in the FTA to exclude any products that do not meet our health and safety requirements, and we will enforce those requirements. Likewise we will seek to ensure the right, consistent with other international obligations, to limit trade in items or products, such as endangered species, controlled by international treaties. At the same time, we would like to work with Mexico to enhance product standards, subject to full public and scientific scrutiny of any changes before they would be implemented, to ensure that human, plant, and animal health and the environment are safeguarded.

During the negotiation of any environment-related provisions, we will ensure the participation of those U.S. officials who are expert in the subject matter and who are responsible for maintaining the integrity of U.S. regulations.

We can assure the Congress that we will do nothing in the FTA to weaken our environmental laws or to diminish our right to protect the health, safety, and environment of Americans.

3. Joint Environmental Initiatives

In addition to environmental safeguards within the FTA, we will pursue with Mexico an ambitious environmental program as described in the action plan at Tab 4. We intend to build on an already impressive record of cooperation in such areas as protecting the border environment and conservation of wildlife and marine resources. New joint U.S.- Mexican initiatives will include:

- Design and implementation of an integrated border environment plan, in a timeframe parallel to implementation of the FTA. This plan will address air and water pollution, hazardous wastes, chemical spills, pesticides, and enforcement.

- During the design phase, there will be an opportunity for public comment and hearings on the border plan; during implementation, there will be comprehensive periodic reviews.

- Consultations on implementation, enforcement and enhancement of respective environmental standards and

- regulatory regimes, including an opportunity for the public to submit data on alleged non-compliance.

o Expansion of cooperative enforcement activities such as coordinated targeting of potential environmental violators.

o Technical cooperation and training, including facilitating the sharing of technology for pollution abatement and other environmental needs.

o Establishment of a consultation mechanism to address technical aspects of environmental and conservation issues, and to address future environmental problems that could arise.

As is the case with our labor initiatives, we intend to develop and implement this program of cooperation in parallel with our negotiations of the FTA.

4. Informed Policy Making and Public Participation

As a result of our consultations to date, we are convinced that we need to broaden the participation in our private sector trade advisory process to ensure that our efforts to enhance trade and growth are consistent with sound environmental practices. To this end, we will seek out and include on a number of those committees individuals who can bring both an environmental perspective and substantive expertise.

In addition, drawing on the resources of agencies with environmental expertise and in consultation with interested members of the public, we intend to undertake a study of U.S.-Mexico environmental issues with particular emphasis on the possible environmental effects of a NAFTA. This will be done in a timely fashion so as to permit U.S. officials to consider the results of that study during the FTA negotiations and other bilateral efforts.

CONCLUSION

The Administration will work for a North American Free Trade Agreement that will enhance the well-being of the United States, one that enables us successfully to face the challenges of the next century.

With the support of the Congress -- and only with that support -- we can negotiate such an agreement. But if the Congress disapproves the extension of fast track, there can be no Uruguay Round, there can be no NAFTA, and the opportunity for progress on labor and environment issues will have been lost.

A rejection of fast track would also signal a retreat from the world trading system precisely at the time when U.S. economic growth is critically dependent on export growth. Finally, a rejection of fast track is a vote of no-confidence: no confidence in American farmers, American workers, American entrepreneurs.

The Administration is committed to making the fast track work. The fast track, as conceived by Congress and implemented by both the Executive and Congress, is a genuine partnership between the two branches. We will work together in preparing for negotiations, in the negotiations themselves, and in fashioning implementing legislation.

If we do our job right, if the fast track consultative process works as it should, then trade agreements and their implementing legislation should be approved overwhelmingly by the Congress. If we do not, then Members of Congress retain the unqualified right to vote the agreement down by simple majority in either House. An extension of fast track in no way impairs any Member's ability to exercise that right.

We will take the time necessary to arrive at agreements that are truly and substantially in the economic interest of the United States. We will take the time needed to consider all relevant issues and to consult fully with Congress and the private sector. Until we arrive at good agreements -- ones that Congress will agree are good -- there will be no agreements.

Tab 1

FREE TRADE NEGOTIATION WITH MEXICO

ECONOMIC IMPACT

Introduction

Trade liberalization has been a major factor contributing to the unprecedented growth of the U.S. and global economies during the last four decades. Global tariff averages have fallen from 40 percent to 4 percent since 1947. While much remains to be done, past barrier reductions have greatly stimulated the expansion of trade. This rapid trade expansion, in turn, has encouraged investment, employment, technological development, and economic growth in the United States and abroad.

A North American Free Trade Agreement (NAFTA) would expand opportunities in all three participant countries -- the United States, Canada and Mexico -- to increase trade further, strengthen competitiveness and enhance growth, employment and living standards. Mexico is the United States' third-largest trading partner -- one with which the United States has had historically close trade relations. A NAFTA would strengthen these relations.

A NAFTA also makes good sense because of the increased importance of exports to U.S. economic growth. Over the last 4 years, U.S. merchandise exports have increased by $178 billion (in constant 1982 dollars) and have accounted for over 40 percent of U.S. GNP growth. In 1990, export expansion accounted for 84 percent of U.S. GNP growth. Strong export expansion this year and beyond can help to restore and sustain the healthy growth of the U.S. economy and jobs. A NAFTA would boost U.S. exports further.

This paper discusses the impact of a NAFTA on the U.S. economy and on U.S. investment in Mexico. Recently completed analyses concur in finding that a NAFTA would be beneficial to the U.S. economy and its workers. This discussion concentrates on the U.S.-Mexico aspects of a NAFTA. This orientation reflects the focus of the studies reviewed and the fact that the United States already enjoys a free trade arrangement with Canada.

I. A NAFTA WILL BENEFIT THE U.S. ECONOMY

A. Trade liberalization in Mexico already has begun to increase U.S. exports and expand export-related U.S. jobs.

Since the mid-1980s, Mexico has embarked on a program of economic reform aimed at reducing the state's role in the economy and allowing market forces to operate more freely. Trade policy reforms under this program have transformed Mexico's economy from one of the world's most protected to a relatively open market.

Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986. In joining the GATT, Mexico accepted the permanent obligation to reduce its top tariff rate from 100 percent to 50 percent. However, Mexico went even further. It lowered its top rate to 20 percent. As a result, the average Mexican tariff applied to imports from the United States (weighted by the volume of trade) has fallen by more than half, from 25 percent in 1985 to about 10 percent currently.

In addition to reducing tariffs, Mexico has sharply reduced its use of non-tariff barriers restricting imports. Import licensing, which formerly was used to limit imports in all 12,000 items of Mexico's tariff schedule, is now mandatory for just 230 products, narrowly concentrated in agriculture and a few manufacturing sectors.

Exports from the United States have benefitted significantly from lower Mexican barriers. Specifically:

- From 1986 to 1990, U.S. merchandise exports to Mexico are up nearly 130 percent, from $12.4 billion to $28.4 billion. This growth is almost twice as rapid as the increase in U.S. exports to the world, up 73 percent.

  - U.S. agricultural exports to Mexico, our 4th largest market for agricultural products, totalled $2.5 billion in 1990. Agricultural exports to Mexico have risen 134 percent since 1986.

  - Consumer goods' exports from the United States to Mexico have tripled since 1986, rising from $1 billion to $3 billion.

  - U.S. exports of capital goods to Mexico have grown from $5 billion in 1986 to about $9.5 billion last year.

- The Department of Commerce estimates that the expansion of U.S. exports to Mexico over the period 1986 to 1990 has added 264,000 export-related jobs in the United States. The Commerce Department further estimates that in 1990 a total of 538,000 U.S. jobs were related to U.S. merchandise exports to Mexico.

- The U.S. merchandise trade deficit with Mexico has fallen from $4.9 billion in 1986 to $1.8 billion in 1990. For non-petroleum trade, the U.S. bilateral balance with Mexico has moved from a deficit of $1.5 billion in 1986 to a surplus of $2.7 billion in 1990.

B. **A NAFTA would lock in the process of trade liberalization in Mexico and assure even greater access for U.S. exports in the future.**

Even given Mexico's recent record of lowering trade barriers, there is much more it could do to open its market, and thus create new opportunities for U.S. exporters. An FTA with Mexico would expand access to Mexico's growing market for U.S. exports and secure the access obtained in recent years. Specifically:

- Many individual Mexican barriers remain high. Mexico's trade-weighted average tariff is 2 1/2 times higher than that of the United States.

  -- Mexican tariffs for telecommunications equipment, computers, pharmaceuticals and auto parts all fall within a range of 10 percent to 20 percent.

- In addition, in sectors where non-tariff barriers persist, they are significant.

  -- Forty percent of the value of U.S. agricultural exports to Mexico are impeded by restrictive import licensing requirements.

  -- Export performance requirements and minimum local content requirements still limit U.S. motor vehicle exports to Mexico.

  -- Foreign investors are still excluded from or limited to minority shares in "strategic" sectors of the Mexican economy (e.g., petrochemicals, transportation, banking).

- An FTA would secure U.S. access to Mexican markets by preventing possible future movement toward more protectionist policies.

-- Mexico retains the right under GATT to raise its tariff rates unilaterally back to 50 percent; an FTA would prevent Mexico from doing so with respect to imports from the United States.

-- By providing a guarantee against future protectionist trade policies, an FTA would improve confidence in the Mexican economy, boosting Mexican growth and demand for imports, particularly from the United States.

C. Economic studies find that an FTA with Mexico would generate overall benefits to the U.S. economy in the short to medium term.

In the past year, three comprehensive analyses of the economic effects of an FTA with Mexico have been conducted. All three conclude that the U.S. economy would benefit from the creation of a free trade area with Mexico -- in terms of exports, output, and employment. Their major findings are summarized below.

1. The ITC Study

Origin:

In September 1990, the House Committee on Ways and Means and the Senate Committee on Finance requested that the International Trade Commission (ITC) conduct an investigation of the likely economic impact on the United States of an FTA with Mexico. The study was completed in February 1991.

Description:

The study covers in summary form sectoral, regional, and general economic effects of an FTA with Mexico on the U.S. economy. Broad labor market effects were estimated using a formal mathematical ("computable general equilibrium") model. In contrast, more detailed sectoral analyses were based on: 1) single sector ("partial equilibrium") quantitative analysis of the price and trade effects of an FTA; 2) interviews with experts; and 3) qualitative assessments of non-price factors that affect individual sectors (e.g., investment restrictions). The study did not report quantitative estimates because the Commission was requested by the Committees to present analytical results in qualitative terms only.

Conclusions:

- For the United States, an FTA with Mexico would expand trade opportunities, lower prices, increase competition, and result in savings from larger scale production. Because such gains outweigh estimated costs, the U.S. economy would benefit from an FTA.

- Real output and the real wages of both higher and lower skilled workers in the United States[1] would increase as a result of the FTA.

- Because the Mexican economy is small relative to the United States and trade barriers are already quite low, benefits to the U.S. economy overall will be moderate in the near to medium term.

- The FTA could cause some minor shifts among occupations in the United States (generally from lower to higher skill employment).

- The FTA could have moderate to significant effects on trade for a number of the U.S. industries covered by the ITC study. However, the ITC concluded that such bilateral trade gains or losses would have negligible effects on levels of production of U.S. industries, nationally or regionally.

2. The Clopper Almon Study

Origin:

Commissioned by the Department of Labor, Industrial Effects of a Free Trade Agreement Between Mexico and the USA is a joint study by groups at the University of Maryland (INFORM) and the University of Guanajuato, Mexico (CIMAT). Dr. Clopper Almon of the University of Maryland was the project director. The study was released in September 1990.

Description:

The study is based on linking a 78-sector model of the U.S. economy with a 74-sector model of the Mexican economy. Each model forecasts employment, production,

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[1] As reported in a letter of April 4, 1991, from ITC Chairman Anne Brunsdale to House Ways and Means Committee Chairman Dan Rostenkowski, updating findings in the original ITC Report on the basis of new empirical data.

prices, exports, and imports in all sectors for the period 1989 to 2000. The effects of a U.S.-Mexico FTA are expressed as the difference between a baseline forecast (without an FTA) and forecasts of two FTA scenarios: 1) tariff elimination only, and 2) elimination of tariffs and major non-tariff barriers.

Conclusions:

- U.S. real GNP, exports, and employment all increase moderately due to an FTA.

- An FTA that reduces both tariff and non-tariff barriers would increase real U.S. exports by an additional $10 billion a year (at 1990 prices) by the end of 10 years. Real U.S. exports to Mexico would be roughly 28 percent higher in the year 2000 due to an FTA. U.S. imports from Mexico would increase by slightly more than $3 billion and would be 7 percent higher in the year 2000 due to an FTA.

- Over 10 years, the net employment effect of the FTA would be the creation of 64,000 jobs in the United States. Sectors in the United States which would experience a net increase in employment from an FTA (from changes in both export and import-competing products) add 88,000 jobs over 10 years. Deducted from this are 24,000 jobs which would be lost in other sectors over the ten-year period (an average of 2,400 jobs per year).[2]

- The trade intensive sectors of the U.S. economy (manufacturing and agriculture) will gain the most employment from a U.S. Mexico FTA. Of the 64,000 net increase in jobs, 48,000 would be additional jobs in the U.S. manufacturing sector and nearly 12,000 new jobs would be in U.S. agriculture.

3. The Peat Marwick Study

Origin:

The U.S. Council of the Mexico-U.S. Business Committee recently contracted for a study of the effects of a U.S.-Mexico FTA from the accounting firm of KPMG Peat Marwick

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[2]In many cases, the jobs "lost" due to an FTA are actually small reductions in the growth of sectoral employment that would take place over 10 years, not absolute reductions in jobs.

(Policy Economics Group). An executive summary of this study reporting broad conclusions of the analysis has been released, and the full study is due to be released later in 1991.

Description:

The Peat Marwick study, like the ITC Study, presents results from a "computable general equilibrium" model. Taking 1988 as a base year, the Peat Marwick study examines how employment, wages, incomes, rates of return on capital, exports, and imports would have been different in 1988 had an FTA been in effect in that year (all dollar values in constant 1988 dollars).

Conclusions:

The executive summary reports results on the basis of two scenarios: 1) not allowing for additional invested capital in Mexico as a result of the FTA, and 2) allowing for such additional capital.

Scenario 1 (assumes no additional capital):

- Real income, wages, and return on capital in the United States improve modestly.
- Real U.S. exports to Mexico would rise by 5.4 percent, while real U.S. imports from Mexico would rise by 4.2 percent.
- The U.S. bilateral trade deficit with Mexico would increase slightly (by 2 percent).[3] However, the U.S. trade deficit with the world, including Mexico, would decline slightly.

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[3]With U.S. exports to Mexico rising by a somewhat greater percentage than U.S. imports from Mexico, it is unclear why the U.S. trade deficit with Mexico would increase, rather than decrease slightly. A larger base value for imports than exports could produce such a result as could other factors in the Peat Marwick study not fully explained in the executive summary.

Scenario 2 (assumes $25 billion additional capital):[4]

- The improvement in real U.S. income, wages, and return on capital is greater than in the first (no additional capital) scenario.
- Real U.S. exports to Mexico would rise somewhat less than under the no additional capital scenario. Real U.S. imports would increase more than under the no additional capital scenario.
- The U.S. bilateral trade deficit with Mexico, however, would increase by 21 percent. With the world, the U.S. trade deficit still declines slightly.

Peat Marwick's finding with respect to the second (additional capital) scenario should be interpreted carefully. Because the model compares an actual to a hypothetical final state of the economy in 1988 after all adjustments to an FTA, it does not examine the actual process of adjustment for the U.S. or Mexican economies to an FTA.

Any additional capital inflows to Mexico are likely to finance the increase of imports which Mexico, as a developing country, needs badly. U.S. producers who currently supply 70 percent of Mexico's imports would be well positioned to supply the lion's share of such an increase in Mexican imports. As a result, additional capital inflows to Mexico from the United States or elsewhere could well lead to a concurrent strengthening of the U.S. trade balance with Mexico.

D. These studies underestimate the benefits from free trade, particularly in the longer run.

As is well known to trade economists, formal modeling of the effects of trade liberalization routinely underestimates the economic gains. This underestimation reflects both the restricted scope of the models employed and the technical difficulties of modeling certain important types of gains from trade.

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[4]The Peat Marwick study estimates that $25 billion in additional capital stock in Mexico is the amount that would have been required to hold the return on capital in Mexico unchanged after the hypothetical full adjustment to an FTA in 1988.

Because of economic gains not captured by these studies, the benefits may well be substantially larger than reported, particularly in the longer term. Underestimation can occur for any one of the following reasons:

- The models measure the increase in economic efficiency that results when free trade shifts resources and output between sectors. The models do not, however, measure increased efficiencies and potential economic gains available through production sharing and other forms of specialization in the intermediate steps of production.

- The models do not measure the "dynamic" gains from freeing trade. Economists argue that the dynamic gains outside the scope of these models are potentially much larger than the gains which the models actually do measure. Such dynamic gains arise from any aspect of trade liberalization which would increase saving and investment and thus lead to higher rates of economic growth over the medium to long term.

  -- For example, freeing up international trade and investment promotes more efficient use of resources. To the extent that capital becomes more efficient and profitable, investing in new capital equipment becomes more attractive. Market-opening initiatives can improve the investment climate, thereby promoting investment and spurring growth.

  -- In addition, dynamic gains can come from increased investment in research and development (R&D). The level of investment in R&D in the United States is strongly influenced by investors' expected rate of return from such investment. R&D-intensive products generally enjoy intellectual property protection for a specified number of years. Investors' rate of return is, therefore, significantly influenced by the size of the market in which the product can be sold. By expanding market size on the one hand and better protecting intellectual property on the other, an FTA could increase investors' expected rate of return, the nation's level of investment in R&D, and thus the economic growth rate.

- "Static" gains from trade result from the increased efficiency with which the nation's current capital and labor resources can be employed in a more open world market. Greater export opportunities encourage the expansion of America's most productive firms and industries and the jobs they provide. Such gains from trade liberalization are considered a "one-time" adjustment and do not capture dynamic growth effects on

the nation's GNP over time. Computable general equilibrium models such as those used in the Peat Marwick study and for part of the ITC Report are "comparative static" and do not capture dynamic gains. Although Clopper Almon's is a dynamic model, it does not capture some important sources of dynamic trade gains.

- The studies do not capture all the forms of liberalization which are likely to take place in an FTA. The Clopper Almon study, for example, models the elimination of tariffs and four major non-tariff barriers (Mexican barriers against agricultural products, computers and motor vehicles, and U.S. barriers against apparel imports). Other non-tariff barriers (e.g., services trade barriers, investment performance requirements, etc.) are not included in his study. Similar limitations apply to the Peat Marwick study. The ITC Report considered a broad range of policy changes from an FTA but did not reflect all likely policy adjustments.

  -- For example, an opening of government procurement in Mexico would be of substantial benefit to U.S. engineering and construction firms because of the poor state of Mexican infrastructure. This and many other possible elements of an FTA are not captured in the studies.

- These studies, in general, do not consider gains arising from the capture of increased economies of scale in production (or the reduction in unit production costs made possible by large scale production) or increased competition among producers. Such factors tend to amplify both the static and dynamic gains from trade liberalization.

- Finally, quantitative estimates in the studies do not include additional gains from the inclusion of Canada in a NAFTA. Larger economies of scale within North American business enterprises, greater cost-saving and intra-firm trade between different divisions of North American firms, and the ability to perform R&D, engineering, product design and marketing more effectively on a continental basis would raise the global competitiveness of all three NAFTA countries and further enhance their growth potential.

E. **U.S. farmers and especially manufacturers would benefit from free trade with Mexico.**

Each study examined the effects of free trade with Mexico on specific sectors and the economy as a whole. Each concluded that U.S. manufacturing and agricultural sectors will benefit the most from an FTA.[5]

1. ITC Study

The ITC Report concluded that among the U.S. industrial sectors that would gain the most from an FTA with Mexico would be:

- o Grains and Oilseeds
- o Electronic Equipment
- o Machinery
- o Steel
- o Chemicals

(The ITC did not provide quantitative estimates.)

2. The Clopper Almon Study

The Clopper Almon study concluded that the FTA would act to increase U.S. jobs principally in the manufacturing sector (and to a lesser extent in agriculture). Among the main beneficiaries would be:

o Non-Electrical Machinery	--	7,900 additional jobs, $312 million increase in exports
o Rubber and Plastic Products	--	6,300 additional jobs, $581 million increase in exports

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[5]Where reported below, sectoral employment effects are net effects from the changes in both export- and import-competing product.

o	Communications Equipment	--	5,300 additional jobs, $576 million increase in exports
o	Motor Vehicles	--	4,900 additional jobs, $999 million increase in exports
o	Computers	--	2,400 additional jobs, $734 million increase in exports
o	Agriculture	--	11,700 additional jobs, $675 million increase in exports

(Estimates of the increase in U.S. jobs and exports are relative to trends in the year 2000, the 10th year following hypothetical trade liberalization. Export values are reported in 1977 prices. This substantially understates the value in current 1991 dollars).

3. The Peat Marwick Study

The Peat Marwick study concluded that among the sectors with the largest gains in output and employment in 1988 would have been:

o	Optical & Other Instruments	--	11,000 additional jobs, $1.3 billion output increase
o	Machinery and Equipment	--	3,600 additional jobs, $700 million output increase
o	Motor Vehicles and Bodies	--	1,700 additional jobs, $300 million output increase
o	Chemicals	--	1,000 additional jobs, $400 million output increase

- Food -- 600 additional jobs, $197 million output increase

(Increases represent the extent to which the study estimated that jobs and output would have been higher in 1988 had an FTA been in place with all adjustments complete; output values are reported in 1988 prices.)

II. U.S. WORKERS AND FIRMS ARE WELL-POSITIONED TO ADJUST TO FREE TRADE WITH MEXICO

A. While free trade with Mexico will expose some U.S. industries to increased competition, U.S. workers are well-positioned to adjust to this competition from Mexico.

There is little cause for concern that an FTA with Mexico will require adjustments by large numbers of U.S. workers. U.S. labor should have little problem adjusting to increased competition from Mexico for the following reasons:

- Total Mexican output is currently only 4 percent of U.S. output. Thus, the extent to which Mexican competition can displace U.S. workers is sharply limited.

- U.S. barriers to Mexican imports are already very low -- the average U.S. tariff on Mexican imports is under 4 percent. Also, a substantial portion of U.S. imports from Mexico enters the United States free of duty (either MFN duty-free or under provisions of the Generalized System of Preferences and HTS subheading 9802, otherwise referred to as "American goods returned"). In short, U.S. firms and workers already compete successfully with Mexican labor every day.

- U.S. workers are on average more productive than their Mexican counterparts due to greater skills, education, higher technology, and better transportation, communication, and other infrastructure in the United States. This is why they are so successful in current head-to-head competition and why Gross Domestic Product per worker is roughly seven times higher than in Mexico.

-- Wage disparities between U.S. and Mexican workers in large part reflect differences in labor productivity between the two countries. High wages in the United States result from much higher labor productivity in the United States and, therefore, do not represent an overall competitive disadvantage for U.S. workers.

-- The trade effects of an FTA would tend to expand higher productivity job opportunities in both countries. The results of an FTA would, therefore, be to raise average real wages and living standards in both countries. Furthermore, estimates show that Mexicans spend 15 cents of every dollar of additional income on imports from the United States -- a factor which should tend to ease further any adjustment pressures on U.S. workers.

o As discussed in detail in Tab 2, an FTA with Mexico will contain provisions that ease labor adjustment, further reducing the potential for the dislocation of U.S. workers:

-- Trade barriers will be reduced only gradually (the U.S.-Canada FTA reduced them over a 10-year period).

-- We will seek safeguard mechanisms that allow for the temporary reimposition of tariffs for industries injured by import increases.

o Workers and their families are also consumers. The lower U.S. import prices which would result from an FTA with Mexico would increase the real purchasing power of working families in the United States.

B. Economic studies conclude that dislocations will be minimal, even in the most affected sectors.

o All three studies conclude that in sectors which would experience reductions in output or employment, those losses would be extremely small relative to sector size and would be spread out over time.

o For example, apparel was found to be among the manufacturing sectors most affected in both the Clopper Almon and Peat Marwick studies. The Almon study projected an average of 720 jobs lost per year for 10 years -- the largest loss for any manufacturing sector in the study. These losses represent less than 1/14th of one percent (0.07 percent) of average annual U.S. employment in the apparel sector. The Peat Marwick study suggests a net loss of 4,400 jobs in the apparel sector over a number of

years. (The number of years required for a full adjustment to an FTA is not determined in a "comparative static" model such as the one employed by Peat Marwick.)

III. FEARS THAT A NAFTA WOULD RESULT IN LARGE DISPLACEMENT OF U.S. INVESTMENT AND PRODUCTION TO MEXICO ARE UNFOUNDED; ADDITIONAL INVESTMENT FLOWS TO MEXICO WOULD BENEFIT THE U.S. ECONOMY AND WOULD BE MODEST RELATIVE TO TOTAL U.S. INVESTMENT FLOWS ABROAD.

A. Analysis of Mexico's economy concludes that Mexico's ability to absorb large amounts of direct investment from the United States is limited.

The three studies already completed on the impact of an FTA and most other multi-sector, economy-wide, econometric studies in progress are not specifically designed to quantify the impact of an FTA on foreign investment in Mexico.[6] The problems of formally assessing the impact of a NAFTA on foreign investment in Mexico appear to be ones of both modelling and data availability.

Other analyses, however, suggest the conclusion that a NAFTA would not cause any large displacement of U.S. investment or production to Mexico. Total foreign direct investment inflows to Mexico in 1990 were just $2.6 billion from all countries. Of this amount, an estimated $1.6 billion was by U.S. firms.[7] Even if the effect of a NAFTA were to double or triple direct investment flows to Mexico,[8] total direct investment would reach no more than about $5 billion to $8 billion a year, with roughly $3 billion to $5 billion of that from U.S. firms. While these figures are quite large relative to Mexico's $200 billion economy, they are quite small in terms of the $5.2 trillion U.S. economy.

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[6]The Peat Marwick study includes the effects of increasing investment in Mexico, but does not formally model the amount.

[7]For 1989, the latest year for which U.S. bilateral direct investment data are available, U.S. direct investment flows to Mexico totaled $1.4 billion or roughly 60 percent of 1989 direct investment to Mexico from all countries.

[8]Prior to their accession to the EC, Spain and Portugal received direct investment inflows from all countries equal to roughly 1.4 percent of GNP (in 1985 and 1986). By 1989, direct investment flows to Spain and Portugal as a share of their GNP had somewhat less than doubled to 2.4 percent of GNP.

to Mexico's $200 billion economy, they are quite small in terms of the $5.2 trillion U.S. economy.

- Even if U.S. direct investment flows to Mexico were to double or triple as a result of a NAFTA, reaching $3 billion to $5 billion over the next several years, this amount would represent just 0.4 percent to 0.7 percent of current investment in the United States ($750 billion).

- Last year, direct investment flows from the United States to Mexico represented just 3.8 percent of U.S. direct investment flows to all countries.

Moreover, a large share of increased U.S. direct investment flows to Mexico would come from the reinvestment of profits earned by U.S. subsidiaries in Mexico, rather than from new flows of investment from the United States. In 1989, over 70 percent of new U.S. direct investment in Mexico was in this form.

Foreign direct investment in Mexico could be expected to increase in the coming years even in the absence of a NAFTA. Foreign direct investment already has increased substantially in recent years as a result of increased foreign confidence in the Mexican economy. Direct investment inflows tripled to $1.5 billion in 1986, the year of Mexican accession the GATT, and have continued to rise in tandem with the Mexican government's on-going economic reform efforts. Moreover, even without a NAFTA, barriers to the entry into the United States of goods produced in Mexico are already so low as to pose little overall impediment to foreign investors in Mexico producing to serve the U.S. market.

There are a number of additional reasons for concluding that, even under the most extreme of circumstances, an FTA with Mexico would not cause outflows of direct investment from the United States harmful to the U.S. economy.

- Some of the new U.S. investment in Mexico would be diverted from other developing countries. The types of investments that can be profitably undertaken in Mexico are the types which U.S. firms already are making in other developing countries. Investments in Mexico are much less likely to substitute for investments for which a highly educated labor force and highly developed infrastructure (as in the United States) are needed.

- Increased efficiency and growth will generate new investment funds. Expanding the investment pie can increase investment in Mexico without decreasing it in the United States.

- As noted above, there are few barriers in most sectors to prevent investment in Mexico now, so long as the output is intended for export markets in the United States or elsewhere.

- Given the current state of Mexican infrastructure and its large external debt, U.S. investment in Mexico is likely to grow only gradually.

Moreover, some aspects of a NAFTA may work to decrease certain types of U.S. investment in Mexico. For example, current Mexican performance requirements compel some U.S. firms to invest in Mexico to gain access to the Mexican market. If such requirements were eliminated in a NAFTA, firms could reduce such investments, or decrease their rates of new investment, and serve the Mexican market with increased exports from the United States.

B. **The new U.S. investment that does flow to Mexico will benefit the U.S. as well as the Mexican economy.**

U.S. investment in Mexico tends to take place in sectors where competition from Asia is fiercest (e.g., autos, electronics). Much of this investment is for assembly operations or other forms of production sharing (which serve to enhance the competitiveness of both Mexican and U.S. firms and workers).

- Investment in production sharing in Mexico has the effect of displacing U.S. imports from Asia or displacing investment in Asia. For example, in response to a poll conducted by the ITC, a large majority of the 323 U.S. companies that responded stated that their Mexican operations helped them compete against non-Mexican imports into the United States.

- Also, in a free market environment many U.S. firms would prefer to invest in Mexico rather than in Asia. Proximity attracts U.S. firms that otherwise would look elsewhere to rationalize their production.

Workers and firms in the United States benefit from "rationalizing" production between the two markets. In looking to co-production arrangements between the United States and Mexico, U.S. firms would be seeking the same advantages that Japanese firms are finding in Asia and German firms in Spain to improve competitiveness against third-party suppliers.

- Home-country workers -- be they Japanese, German or American -- benefit from the gradual shift toward more productive, better paid, and more secure employment which is induced by such co-production arrangements.

- The firms, by rationalizing their production internationally, tend to expand the market, creating jobs, and raising incomes and living standards in both their home and host countries.

- Co-production in the North American market is likely to increase the competitiveness of all three countries -- the United States, Mexico, and Canada -- vis-a-vis other countries. North American products should, as a result, compete more successfully in foreign export markets and against third-country imports into the North American market.

- Also, firms in Mexico are far more likely to source capital goods and components from the United States than from firms in other foreign countries. Seventy percent of all Mexico's imports are now from the United States, and 74 percent of Mexico's imports of capital goods are from the United States.

New capital flows to Mexico will stimulate U.S. exports to Mexico, creating thousands of additional export-related jobs in the United States. Foreign investment provides Mexico with the dollar purchasing power needed to buy U.S. products.

- In developing countries, like Mexico, any additional foreign capital inflows result in increased imports of nearly the same amount. Since 70 percent of Mexico's imports now come from the United States (an even greater portion would likely come from the United States under a NAFTA), increased capital inflows into Mexico could result in large increases in U.S. exports to Mexico.

- The United States, with its strong export advantage in capital equipment and many agricultural products will be well-positioned to supply Mexico's development needs. If net capital inflows to Mexico from all sources increased by $5 billion annually in the next half decade and 70 percent of the associated increase in Mexican imports were from U.S. suppliers, this factor alone would create nearly 70,000 more export-related jobs in the United States over the period.

Tab 2

FREE TRADE NEGOTIATIONS WITH MEXICO

FACILITATING ADJUSTMENT

Based on economic analysis and on experience, we expect a North American Free Trade Agreement (NAFTA) to benefit the U.S. economy, including the manufacturing sector. As Mexico has reduced trade barriers over the last five years, U.S. exports have increased dramatically, including sectors such as steel and textiles. Economic studies using different models and assumptions have all projected that an FTA with Mexico would have a net positive effect on the U.S. economy, in terms of exports, output, and employment, and that adjustment problems are not likely to be substantial in the United States.

There are few products for which existing U.S. tariffs pose a significant barrier to Mexican exports. The average U.S. tariff on Mexican imports is under four percent. The U.S. tariff on autos, for example, is only 2.5 percent. Forty-five percent of Mexican goods already enter the United States duty-free.

Nonetheless, there has been concern that the NAFTA will lead to job dislocations in the United States. We will seek to phase out tariffs on import-sensitive products gradually over a sufficient transition period to enable domestic industries to adjust. Moreover, we will seek to include safeguard provisions to prevent or remedy serious injury to U.S. industries. We also intend to seek a special mechanism for expeditious provisional relief to growers of perishable agricultural products, who, because of the seasonal nature of their business, are especially vulnerable to injury caused by sudden import surges. Finally, we will ensure that effective adjustment programs are in place to assist in retraining and job placement should dislocations occur.

While we are convinced that the best adjustment program is a healthy and expanding U.S. economy, we recognize that effective retraining and adjustment programs facilitate smooth adaptation to ongoing shifts in technology and industrial competitiveness. Therefore, the Administration is firmly committed to an effective program for worker adjustment and retraining.

This paper outlines measures that we will seek to include in the NAFTA itself to facilitate adjustment, as well as a description of our major programs to assist any worker dislocation that might occur.

I. PROVISIONS IN A NAFTA

A. Staged Elimination of Tariffs and Non-Tariff Measures

One of the principal objectives of a free-trade agreement is the elimination of tariffs among the FTA parties for products originating in those countries. However, to avoid dislocations that could arise if duties on import-sensitive products were removed abruptly, we will negotiate for appropriate transition periods in which duties on such products are reduced in small increments. Such transition periods allow domestic industries, including farmers, time to adjust gradually to trade liberalization.

The length of the transition period should take account of the import-sensitivity of the product. In the U.S.-Canada FTA, for example, tariff rates already set at zero remained as such, and some additional tariffs were eliminated immediately. For the remaining products, tariffs were scheduled to be eliminated over three-, five-, or ten-year periods. That schedule was negotiated to account for the relative sensitivity of bilateral trade in various products with Canada; our negotiations with Mexico are likely to produce different schedules and time periods to correspond to differences in import sensitivities.

During the negotiations, the Administration will be prepared to consider staging periods beyond those provided in the U.S.-Canada FTA. We have requested the U.S. International Trade Commission (ITC), which is an independent agency, to provide advice on the probable economic effects of any tariff changes and to identify import-sensitive products. We will draw heavily on this advice as well as advice we receive from the private sector in establishing our position on staging decisions on specific products. Moreover, we will consult closely on this matter with the Congress prior to and during the negotiations.

Another important U.S. objective in the FTA negotiations will be the liberalization and elimination of measures other than tariffs imposed by Mexico that inhibit market access for U.S. exporters. These non-tariff measures (NTMs) include practices such as quantitative restrictions, licensing, import charges, technical barriers to trade and restrictive government procurement policies.

Mexico will undoubtedly seek the elimination of NTMs maintained by the United States, as well. We will ensure that any agreed liberalization is staged over time to the extent necessary for U.S. producers to adjust.

B. Safeguard Mechanisms

A fundamental part of transition rules must be effective safeguard provisions. Such provisions serve as a backstop to staging rules, providing further assurance within the trade agreement itself against injurious dislocations as a result of trade liberalization. We believe that injurious increases in imports from Mexico are unlikely, given that tariffs -- especially on import-sensitive products -- will be gradually phased out over a number of years. Nevertheless, we believe that there should be effective, transparent safeguard provisions to enable prompt and effective temporary relief in the event of such an injurious increase.

Our existing free trade agreements with Canada and Israel include bilateral safeguard provisions. We will seek similar provisions in the NAFTA. These provisions would permit the suspension of preferential trade treatment under the NAFTA (including reimposition of duties) for a temporary period if increased imports from an FTA partner are a substantial cause of serious injury to a domestic industry. Such a period of relief would enable our domestic producers, including workers, to take necessary steps so that they will be better positioned to compete when the import relief expires.

Import relief should be timely, where it is necessary. We are aware that in instances where imports surge, delay in taking action while a full investigation is completed may compound the problem facing the domestic industry, particularly in the case of perishable agricultural products. We will seek the right under the NAFTA to take provisional safeguard measures quickly, before a full investigation is completed, when there are critical circumstances where delay would cause damage difficult to repair. To meet the particular problems of producers of perishable agricultural products, we will seek special "snap-back" provisions permitting the temporary reimposition of duties. A similar snap-back provision in the U.S.-Canada FTA is available for the first 20 years of that agreement.

The trigger for allowing safeguard actions should be aimed to prevent or remedy serious injury, but should not be set so low as to enable import restrictions to be imposed lightly. We must bear in mind that an excessively low trigger could lead to frequent Mexican actions against our own export industries when they increase exports to Mexico.

Where injury to a U.S. industry arises from several sources of imports, Section 201 of the Trade Act of 1974 sets out specific criteria for taking a safeguard action. It authorizes the President to impose temporary global import restrictions, if the ITC determines that increased imports are a substantial cause of serious injury, or threat thereof, to a domestic industry. Import relief provided by the President, usually in the form of increased tariffs or quantitative restrictions, is designed to prevent or remedy serious injury and to facilitate adjustment of the domestic industry. Specific factors examined in determining serious injury include significant unemployment or underemployment and the significant idling of productive facilities (including plant closings) in the affected industry.

We intend to maintain the right to restrict imports of Mexican and Canadian products along with the products of other countries in such so-called "global" safeguard actions, if Mexican and Canadian products are contributing to serious injury to the relevant U.S. industry. As in the case of the U.S.-Canada FTA, we are prepared to contemplate exemptions for our FTA partners, on a reciprocal basis, if their products are not part of the import problem. However, we must have the flexibility to include in global restrictions products of FTA partners, when those products are part of the problem, even at the price of a comparable right for safeguard action on our exports.

C. Rules of Origin

Rules of origin are used to determine which goods imported by one FTA party into the customs territory of another should benefit from the preferential treatment accorded under the agreement. Rules of origin are not an adjustment mechanism as such, but properly designed rules help avoid adjustment problems. We intend to seek strong rules of origin that would prevent products of third countries from using Mexico as a pass-through for duty-free entry to the U.S. market.

The primary purpose of rules of origin is to ensure that the benefits of an FTA will accrue principally to the FTA parties rather than to countries that are not parties to the FTA. However, rules of origin cannot be so restrictive that they force parties exclusively to use materials solely indigenous to an FTA country, thereby mitigating the benefits of the FTA. Properly designed rules of origin are fair and predictable, prevent other countries from using our FTA partners as a pass-through into the United States, but do allow use of third-country materials that have been substantially transformed by significant processing operations.

We believe we should draw on our experience with the strong rules of the U.S.-Canada FTA in negotiating a NAFTA, but we should be sensitive to changes as necessary to meet trade conditions with Mexico. We believe, for example, that we should seek to strengthen the required North American content for assembled automotive products in the case of a NAFTA.

As was the case in the U.S.-Canada FTA, workable rules of origin can be negotiated only in cooperation with the affected domestic industries. Through our consultations with the Congress and private sector advisors, we will seek to craft rules of origin that are clear, tough, and predictable.

II. WORKER ADJUSTMENT

A. Economic Dislocation and Worker Adjustment Assistance Act

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA--Title III of the Job Training Partnership Act) is a flexible, comprehensive program with a wide range of services for all dislocated workers whose employment loss (for any reason) means they are unlikely to return to their previous industries or occupations.

EDWAA was crafted with broad bipartisan Congressional and Administration support as part of the Omnibus Trade and Competitiveness Act of 1988, the same statute that established present U.S. trade negotiating objectives.

1. Eligibility

All workers who have been terminated or have received a notice of termination, and who are unlikely to return to their previous occupation or industry, are eligible for EDWAA services.

- Any worker in any company is eligible for EDWAA, without certification. Services are provided to primary, secondary, and tertiary workers.

2. Timing

Adjustment assistance under EDWAA is available immediately, often before job loss occurs.

- Advance notice of a plant closing or a major layoff is provided to EDWAA staff under the 1988 Worker Adjustment and Retraining Notification Act (WARN) Act, which stimulates early action.

- In a typical situation, the announcement of a layoff will bring a state-level "Rapid Response" team to the worksite, where they will design a range of services to meet the needs of displaced workers. Often arrangements will be made to assess and enroll workers into EDWAA and unemployment insurance (UI) programs at the plant site.

3. Program Design

EDWAA offers a wide range of services. It is a nationwide program with a flexible, local delivery system.

- Eighty percent of all EDWAA funds are distributed annually, by formula, to states and substate areas.

- Formula funds are available to every state, county, and Congressional district.

- Twenty percent of EDWAA funds are reserved by the Secretary of Labor to make discretionary grants to aid especially hard-hit workers, industries, and areas.

4. Services Provided

The specific EDWAA set of services includes:

- Rapid Response: on-site rapid response to plant closings and mass layoffs, often before actual layoffs occur.

- Re-Employment Services: outreach, development of individual readjustment plans, labor market information, job development, job search and placement, supportive services such as relocation assistance and pre-dislocation readjustment programs.

- Retraining Services: includes classroom, occupational skills, and/or on-the-job training, basic and remedial education, and entrepreneurial training.

- Needs-Related Payments: Dislocated workers who have exhausted UI may receive needs-related payments to help complete training if they were enrolled in training by the 13th week of their initial UI benefit period (thus training begins while the individual is receiving UI). Payments may not exceed the

individual's UI amount or the poverty level, whichever is higher. An eligible worker who does not qualify for UI must be participating in a training or education program.

5. Results

EDWAA is a highly successful program. In its first three years of operation, it will serve some 700,000 workers, placing over 70 percent in jobs identified by local business communities. On average, hourly wages in these jobs exceed $7.50.

- o EDWAA program costs average $1,700 per participant.
- o Funding commitments reflect the consensus opinion that EDWAA is a program that works. Since EDWAA began in July 1989, funding has doubled, rising from $284 million in 1989 to $527 million in 1991. The Administration is committed to adequate long-term funding for EDWAA.
- o EDWAA has helped displaced workers in a diverse set of industries, including autos, timber, electronics, copper, food processing, aerospace, defense, and steel.

B. Administration Position

The Administration is firmly committed to a worker adjustment program that is adequately funded and that ensures that workers who may lose their jobs as a result of an FTA with Mexico will receive prompt, comprehensive, and effective services. Worker adjustment services, whether provided through the improvement or expansion of an existing program or through the creation of a new program, should be targeted to provide dislocated workers with appropriate services in a timely fashion.

The Administration is committed to working with the Congress to ensure that the objectives outlined above are met and adequately funded. Any needed changes to U.S. law to implement such a program should be in place by the time the agreement enters into force and could appropriately be addressed in legislation implementing a NAFTA.

Tab 3

FREE TRADE NEGOTIATIONS WITH MEXICO

LABOR STANDARDS, WORKER HEALTH AND SAFETY, AND WORKER RIGHTS

Introduction

Mexico and the United States share a commitment to the maintenance and enforcement of fair labor standards, the promotion of safety and health in the workplace, and worker rights. Implementation of these goals requires both political will and adequate resources. Both of these requisites can best be addressed as our relationship, based on mutual respect, deepens through a North American Free Trade Agreement (NAFTA).

As Part I of this attachment shows, Mexico has strong labor protections which are integral to its Constitution and laws. The Mexican Government also has a strong political commitment to promoting the rights and interests of workers, including increasing standards of living and a safe and healthy workplace. By promoting economic growth in Mexico, a NAFTA will generate greater prosperity and resources that Mexico could devote to improving the situation of workers.

As described in Part II of this attachment, the United States and Mexico are now prepared to sign an agreement to collaborate in a number of labor-related areas, including labor standards and their enforcement. Specific initiatives have already been identified, including information sharing and cooperation in areas of concern such as occupational safety and health, child labor, and labor statistics. Implementation of this agreement holds much promise for progress over the near term.

I. CURRENT LABOR LAW AND PRACTICE IN MEXICO

A. Overview

Mexico's labor standards are comparable to those in the United States, Europe and other industrialized countries. The Mexican Constitution of 1917, as implemented through various pieces of legislation, provides a comprehensive set of rights and standards for workers in all sectors of Mexico, including the maquiladoras. At the end of the nineteenth century, the rights of workers and peasants were often suppressed. It was in reaction to these abuses that the post-revolution Constitution included provisions guaranteeing worker rights and

providing a framework for free trade unionism in both the public and private sectors.

B. Mexican Constitution

Many of the rights of workers flow directly from Title VI of the Mexican Constitution, entitled "Labor and Social Security," also referred to as Article 123. For example, Article 123 guarantees workers the right to form unions and join professional associations of their own choosing. Workers are protected against anti-union discrimination. Other provisions specify rights regarding such issues as the maximum length of the normal work day (eight hours), maternity leave, minimum wages, overtime pay, strikes, child labor, and forced labor. The applicable provisions of the Constitution function as a series of statutes which authorize the government to take many actions on behalf of workers.

C. Legislation

In 1931, the Federal Congress enacted Mexico's first comprehensive Federal Labor Code and established the Federal Labor Court to resolve labor disputes. Today, labor relations are governed by the Federal Labor Law (Ley Federal del Trabajo) of May 1, 1970, and its subsequent amendments. This law is comprehensive and regulates labor contracts, minimum wages, hours of work and legal rest days, paid vacations, employment of women and minors, labor unions, collective bargaining, strikes, labor courts, occupational risks, apprenticeship, profit sharing, dismissal compensation, and conditions of work in specified fields. For example, the law explicitly grants both workers and employers freedom of association and the right to establish trade unions without prior authorization.

In 1978, the Mexican Government revised the Federal Labor Law to bring it into conformity with various International Labor Organization (ILO) Conventions which Mexico had ratified and to modify previous statutes that had become obsolete due to new technologies. This legislation contained a number of improvements related to occupational safety and health. Mexico has ratified 73 ILO Conventions (out of a total of 171), which in Mexico gives these conventions the force of law.

D. Enforcement

Title VI of the Constitution stipulates that the states are responsible for enforcement of labor laws in their respective jurisdictions, but that Federal authorities have exclusive jurisdiction over most matters relating to industrial endeavors, including the following sectors: textiles, electricity generation, cinematography, rubber, sugar refining, mining, metals, steel, petroleum, petrochemicals, cement,

limestone quarrying, automotive manufacturing, chemicals and pharmaceuticals, paper and pulp, vegetable oils and greases, food processing, beverage bottling, railroads, lumber and woodworking, glass-making, and tobacco.

At the federal level, Mexican labor law is administered by the Secretariat of Labor and Social Welfare (Secretaria del Trabajo y Prevision Social). Enforcement is supplemented by tripartite commissions, including representatives of government, business and labor. The Secretariat sets and enforces provisions relating to industrial health and safety, employment of women and minors, and minimum wages.

Disputes involving alleged violations of labor law or collective bargaining contracts are settled through Mexico's dual federal/state system of conciliation and arbitration boards, or "labor courts" which operate in each of the thirty-one Mexican states.

Federal law requires most enterprises to set up plant-level health and safety monitoring bodies, on which labor is represented, that report monthly to the Secretariat of Labor and Social Welfare. It is the job of these commissions to report on health and safety violations by individual factories and businesses.

E. Labor Practices

About 30 percent of the Mexican workforce is unionized. In the industrial sector, most workers are represented by unions. The Congress of Labor, with about 8 million members, is an overall coalition grouping 36 labor confederations and independent unions under its umbrella. The Confederation of Mexican Workers (CTM) is the largest trade union confederation, with more than 5 million members.

The available evidence points to considerable compliance with labor standards in large firms and others where there are strong trade unions. As in other developing and developed countries, compliance with labor standards is less stringent in small- and medium-sized firms, particularly in the informal sector (i.e., economic activities performed without full compliance with regulatory requirements).

II. DETAILED ANALYSIS OF LABOR LAW AND PRACTICE

In what follows, more detailed information is presented on Mexican labor law and practice in the following areas:

A. Freedom of Association;

B. The Right to Organize and Bargain Collectively;

C. Forced Labor;

D. Child Labor; and

E. Conditions of Work, i.e., with regard to (1) minimum wage, hours of work, paid vacations, and holidays; and (2) occupational safety and health.

A. Freedom of Association

1. Constitutional and Statutory Framework

The rights of Mexican workers to organize are guaranteed under the Federal Constitution. Article 123 guarantees workers the right to form unions and professional associations of their own choosing. The Federal Labor Act of 1970 expressly grants both workers and employers freedom of association and the right to establish trade unions without prior authorization. It states that "[n]obody shall be obliged to join or abstain from joining a trade union." Mexico has ratified ILO Convention 87 regarding freedom of association and the right to organize.

To obtain the right to represent workers, to negotiate a contract, and to engage in other legally protected activities, a union must have a minimum of 20 members and be officially registered by the Associational Registry of the Ministry of Labor and Social Welfare. Mexican unions may, without prior authorization, freely form federations or associations and belong to international organizations.

The right of association also includes the right of workers to strike. Strikes are a guaranteed right of Mexican workers under Article 123 of the Federal Constitution. Article 123 specifies that "differences or disputes between capital and labor shall be subject to the decisions of a Conciliation and Arbitration Board, consisting of an equal number of representatives of workmen and employers, with one from the government."

The Federal Labor Law of 1931, as amended in 1971, sets forth procedures requiring notification and conciliation prior to calling a legal strike. Notice of the intent to strike must be filed 6 to 10 days in advance, and efforts at conciliation,

mediation and arbitration between the parties in dispute are required before a legal strike can take place.

The Labor Act of 1970 states that a "justified strike is one the causes of which can be ascribed to the employer." Though no majority strike vote is needed for a strike to be called, it does need majority backing to exist for legal purposes. If a labor judge declares a strike legal, workers are entitled to partial wages (by law, 50 percent of their pay retroactively). An employer who dismisses a worker based on the worker's union membership or participation in a lawful strike must either indemnify the worker with three months' wages, or fulfill the contract, depending upon the preference of the employee. In the case of illegal (or wildcat) strikes, the employer may legally reinstate operations with those workers willing to do so and may dismiss striking workers after proper notice.

2. Mechanism for Enforcement of Legal Rights

Title VI of the Constitution stipulates that each Mexican state is responsible for the enforcement of labor laws in its respective jurisdiction, but that federal authorities have exclusive jurisdiction over matters relating to most industrial endeavors, including those in the majority of key industries.

Disputes involving alleged violations of labor law or alleged violations of collective bargaining agreements are settled by Mexico's dual federal-state system of conciliation and arbitration boards. In addition to the conciliation and arbitration boards, Mexico has a Federal Labor Court, which has jurisdiction over disputes of right, and in some circumstances over disputes of interest.

The Federal Labor Court also has a significant role to play with respect to strikes. Notice of the intent to strike must be submitted to the Court at least six days prior to the expected date of suspension of work. After notice is received, the chairperson of the appropriate Federal Labor Court is directed to send a copy to the employer, who is required to send a written reply within 48 hours. The Federal Court then summons the parties in dispute to a conciliation hearing.

3. Labor Practices: Historical Experience

Registration requirements for unions are not onerous. Approximately 30 percent of the total Mexican labor force, estimated to be about 28.4 million, is unionized. A pluralistic trade union movement exists, including numerous

trade union confederations, independent unions, and a variety of employer organizations. In the industrial sector, excluding the maquiladoras, more than 90 percent of the production workers in establishments employing over 25 workers are organized.

The Congress of Labor (Congreso de Trabajo) is a coalition that groups together 36 PRI-affiliated labor confederations and independent unions. The Congress, established in 1966, has some 8 million members. It includes all of the major trade union confederations in Mexico, in particular the CTM with 5 million members, the Federation of Civil Service Unions (FSTSE) with 1.8 million members, the Revolutionary Confederation of Workers and Peasants (CROC) with 600,000 members, the Regional Mexican Workers Confederation (CROM) with 250,000 members, and other smaller confederations as well as some independent PRI-affiliated individual unions. There are also numerous independent unions that are not members of the Congress of Labor.

The presidency of the Congress of Labor rotates among the member confederations for 8-9 month periods; however, the CTM, with its substantial membership and enduring strong leader (Fidel Velazquez), is the most influential in the Congress.

There are several international trade union organizations represented in Mexico. The most active is the ORIT (Organizacion Regional Interamericana de Trabajadores), which is the Inter-American affiliate of the ICFTU (International Confederation of Free Trade Unions), headquartered in Brussels. ORIT's headquarters are located in Mexico City; the CTM is one of the strongest Latin American members of ORIT. Other less active international trade union organizations operating in Mexico (however, with no major Mexican trade union affiliates) include the CPUSTAL (Confederacion Panamericana Unica de Sindicatos de Trabajadores de America Latina), which is also headquartered in Mexico and is the Latin American regional organization of the communist World Federation of Trade Unions (WFTU) based in Prague, and the CLAT (Confederacion Latino Americana de Trabajadores), the Latin American regional organization of the World Confederation of Labor (WCL) based in Brussels.

Freedom of association in maquiladoras: Maquiladora workers have the same rights as other workers under the Federal Constitution. These include the rights to organize and join trade unions of their choice.

Only a small percentage of maquiladora workers are organized: approximately 10-20 percent compared to more than 90 percent of the workers in non-maquiladora industrial enterprises. An exception is the motor trucking industry,

which serves most of the maquiladoras with vital land transport services to and from the U.S. border. It is completely organized by the CTM.

As one moves from west to east along the northern Mexican border, the share of maquiladora firms that are organized increases. Nearly all the maquiladoras in the northeastern state of Tamaulipas are organized, primarily by the CTM. Local and regional labor leaders in the State of Tamaulipas (especially in the Matamoros, Reynosa, and Nuevo Laredo areas) take an active part in and promote the organization of maquiladora workers.

Strikes are infrequent in maquiladoras, but some have been called for economic and non-economic reasons. In the few recent cases where strikes have been attempted, most have been resolved within a few days. Most strikes in maquiladoras have been over increased wages or fringe benefits. However, in some cases strikes have also been called to challenge or protest the membership of some maquiladora employees in rival unions, usually the result of one union leader attempting to extend his power or control. In still other cases, strikes have been called by maquiladora workers to protect their rights when a firm has announced plans to shut down operations.

In 1988, the CTM and the AFL-CIO formed a high level joint commission to study the labor-related problems of the maquiladora sector. Subcommittees of the commission have been established on the textile, automobile, electronics, and land transport industries. Two particular aims of this joint CTM/AFL-CIO commission are to encourage unionization of the maquiladora workforce and to seek to improve wages and work conditions in the maquiladora sector.

B. Right to Organize and Bargain Collectively

1. Constitutional and Statutory Framework

The right to organize and to bargain collectively is guaranteed under Article 123 of the Federal Constitution and affirmed in Mexican labor law. The Federal Labor Law of 1970 (Part VII, Chapter 387) specifies that "[e]very employer of persons who belong to a trade union shall be bound to conclude a collective agreement with such trade union if the union asks him to do so."

In workplaces under federal jurisdiction, a union must have a minimum of 20 members and be officially registered by the Associational Registry of the Ministry of Labor and Social Welfare to obtain the right to represent workers, to negotiate a contract, and to engage in other legally-protected activities.

The Federal Labor Act of 1970 specifies that collective bargaining agreements be in writing, and that a copy of each agreement be sent to the federal or local conciliation and arbitration board. The agreements are required by statute to contain the names and addresses of the contracting parties, the undertakings and establishments covered, the duration of the agreement or a statement explaining that it is for a specified or unspecified piece of work, the hours of work, rest days and vacation leave, wage rates and any other stipulations agreed to by the parties. Statutory provisions apply if hours, rest days or vacation leave are not explicitly specified by contract. However, if wage rates are not specified, the agreement is void. In addition, a valid collective bargaining agreement must put workers in a position better than or equal to their position prior to the agreement.

A collective bargaining agreement may contain a "closed shop" union security provision, as long as non-union employees employed prior to the agreement are not "prejudiced." However, an agreement can lawfully contain a clause which requires the employer to dismiss workers who resign or are expelled from the union, albeit with some procedural safeguards. Federal labor legislation dictates that the provisions of a collective bargaining agreement must be extended to every worker in an establishment, regardless of whether they are members of the union.

If no union contract exists, individual labor contracts must be signed by each worker after a 30-day trial period on the job. These contracts establish the basic rules for the provision of personal services as well as the rights of the employer and employee. By signing a labor contract, workers cannot waive their rights that are guaranteed to them under the law.

A collective contract can assume different forms. One or several unions may enter into industry-wide collective contracts, known as "contrato-ley," with various employers or employers' organizations. Labor law sanctions industry-wide contracts when two-thirds of the workers in a given industry (or trade) approve. The results of such an action are binding on all employers and workers, whether or not they participated in the process. Once in place, these agreements become mandatory (for the affected industry) by federal decree.

2. Mechanism for Enforcement of Legal Rights

Disputes concerning alleged violations of labor law or alleged violations of collective bargaining agreements are settled by Mexico's dual federal-state system of conciliation and arbitration boards. These boards are also known as "labor

courts" because they often function as judicial entities. They are located throughout the country, are composed of government, union and management representatives, and operate on a permanent basis. The boards have additional statutory responsibilities, such as the registration of collective bargaining agreements reached between labor and management. Because collective bargaining agreements contain grievance procedures, recourse to the labor courts is generally a last resort for the parties to a dispute.

In addition to the conciliation and arbitration boards, Mexico relies on the Federal Labor Court to resolve disputes submitted by a labor organization. Employers do not have statutory power to bring a labor dispute before the court. The court has jurisdiction over disputes of right, and in some circumstances over disputes of interest. Most of the court's work seems to concern individual disputes, and covers issues such as accident compensation, unjustified dismissals, and termination of a worker's employment contract.

3. Labor Practices: Historical Experience

Collective bargaining is common, particularly in industry. Agreements customarily augment the minimum legally required benefits and may include provisions for additional holidays, higher wages, further education and training, health clinics, recreational facilities, and retirement benefits. They usually include detailed provisions for grievance procedures, seniority, and job security.

Bargaining agreements are revised every two years, although contract wage increase provisions are usually renegotiated annually, and are rarely canceled once signed. Industry-wide bargaining is practiced in the textile, sugar, petroleum, and certain other industries.

Cases brought before the conciliation and arbitration boards range from individual grievances to collective worker actions that seek protection of worker rights and remuneration provided under the labor law.

Right to organize and bargain collectively in maquiladoras: As applies generally throughout Mexico, the tripartite boards of conciliation and arbitration have responsibility for registering individual labor contracts (or collective bargaining agreements where they exist) in the maquiladora sector.

In Matamoros, where all maquiladora workers are unionized and are covered by collective bargaining agreements, the CTM-affiliated FRTM has won a 40-hour work week and higher salaries than prevail elsewhere in the maquiladora sector. In Ciudad

Juarez, unionized workers covered by collective bargaining agreements have won fringe benefits worth 15 to 20 percent above those offered by non-union facilities. In addition, union members are given preference in receiving housing under the federal government's INFONAVIT program. In cities other than Matamoros, maquiladora management often attempts to entice workers from seeking union affiliation by offering a substantial package of fringe benefits.

C. Forced or Compulsory Labor

Mexico is a signatory to the ILO Conventions regarding the prohibition of forced or compulsory labor. Such practices are prohibited by Mexican law.

Workers in Mexico are free to terminate their employment following a reasonable period of notice. Workers are not prevented from leaving the premises at the end of the normal workday (though they may be searched when leaving the plant for security reasons or to ensure that they are not removing materials or products without proper authorization).

D. Minimum Age for Employment

The minimum legal age for employment is 14 years. Those between the ages of 14 and 16 may work but are subject to special legal protection of the Labor Inspection Office and shorter working hours than adults. They are required to obtain a medical certificate showing their ability to work and submit to periodic medical examinations ordered by the Labor Inspection Office. Employers are not permitted to employ minors without the required medical certificate.

Those between the ages of 14 and 16 cannot be employed in places where alcoholic beverages are sold for immediate consumption, in work that may affect their morals or good habits, in work below the ground or under water, in dangerous or unhealthy jobs, in work which is excessive for their strength and might prevent or delay their normal physical development, and in non-industrial establishments after 10:00 p.m. They cannot be employed more than 6 hours a day, divided into periods not exceeding three hours, with one hour of rest between work periods.

Child labor laws are observed in large- and medium-sized manufacturing and commercial establishments. They are less well observed in small shops and factories, and there is a significant problem in the informal sector, including street vendors, many of whom are children. Informal sector activities generally do not produce goods or services that enter international trade.

As is the case in many countries, violations of child labor laws have resulted largely from poverty, and state and federal authorities have had inadequate resources to effectively enforce the laws.

The workforce of maquiladoras tends to be young. As a rule, the minimum age requirements specified in Mexican labor legislation are observed by maquiladora employers. Age is normally verified prior to employment in maquiladoras. A birth certificate is needed as proof of age and as a requirement for a worker to enroll in the social security system.

E. WORK CONDITIONS

1. Minimum Wage, Hours of Work, Paid Vacations, and Holidays

Article 123 of the Mexican Constitution establishes certain principles regarding conditions of employment, including a minimum wage, an eight-hour work day, a seven-hour shift for night work, and a maximum work week of six days. The same rights and laws apply throughout Mexico, including the maquiladoras.

(a) Minimum Wage

Workers are guaranteed a minimum wage. Three minimum wage zones, based on cost of living (about a 20 percent differential between the highest and lowest zones), are used to compute the average minimum wage throughout the nation.

Unlike U.S. law, which sets the minimum wage rate by the hour, Mexico's minimum wage is set for a day's work (an 8-hour work shift). Mexican law stipulates that employees' wages are protected from all attachments, liens, or other reductions, except for child support, and apprentices cannot be paid less than the minimum wage.

As of December 1990, the national average daily minimum wage was $3.64 (10,786 pesos). By comparison, however, the average manufacturing sector wage in Mexico was approximately $6.85 per day, nearly twice the minimum wage. If fringe benefits are included, average total compensation of workers in the manufacturing sector rises to approximately $9.85 per day. An estimated 30-35 percent of the total compensation package for Mexican workers is comprised of fringe benefits.

About 92 percent of manufacturing workers are wage and salary employees, while 83 percent of service sector workers are paid workers (paid workers include self-employed plus wage and salary workers). It has been estimated that less than 20

percent of the labor force earns the minimum wage, with the remainder earning above the minimum.

The government, in trying to raise wages, has usually found itself in the difficult position of having to balance its desire to improve the social condition of the workers with its desire to retain employers who might otherwise go elsewhere. Minimum wages rose by 18 percent in 1990. Since 1980, the real minimum wage--adjusted for inflation--has dropped by over 50 percent. This decline in the real wage is a reflection of Mexico's past hyperinflation. Currently, Mexico's annual inflation rate is below 30 percent, compared with over 150 percent in 1987. Real wages in the manufacturing sector grew by 8.7 percent in 1989 and by 6.3 percent between January and July 1990.

Fringe benefits received by workers in the maquiladora sector are quite significant. Total compensation in this sector, while low by U.S. standards, is considered to be higher than that in comparable non-export Mexican firms. According to data provided by the U.S. Chamber of Commerce in Mexico City, total compensation--including fringe benefits--for both maquiladora workers and blue collar workers averages about $10.15 per day and $9.85 per day, respectively. The difference is largely due to substantial non-taxable fringe benefits and other subsidies offered maquiladora workers.

A practice of using apprenticeship contracts to employ young workers in maquiladoras for less than the minimum wage has been abolished since 1970. However, there still is a 30-day trial period before permanent contracts (with full benefits and rights) are signed.

(b) Hours of Work, Paid Vacations, and Holidays

The Federal Labor Law of 1970, as amended, governs hours of work, legal rest days, and paid vacations.

Hours of work: By law, the maximum length of the workweek in Mexico is 48 hours. In practice, the workweek is usually 44 to 48 hours in maquiladoras and 42 to 43 hours in other firms. In Matamoros, where all maquiladora workers are unionized and covered by a collective bargaining agreement, the union has won a 40-hour workweek for 48 hours pay.

Overtime (up to 3 hours per day, but limited to 3 times a week) must be paid at double-time rate; overtime worked beyond this limit (plus work on Sunday and 7 official holidays) must be paid at triple-time rate. Workers employed on the second and third shifts (as in the case of many maquiladoras) must receive the same pay but work fewer hours.

Paid vacations and holidays: All employees are entitled each year to 6 days of paid vacation plus a cash bonus of 25 percent of the amount of pay for six days of work. Workers are also entitled to 7 paid official holidays and to 15 days of pay as a Christmas bonus.

2. Occupational Safety and Health Standards

(a) Constitutional and Statutory Framework

Mexican legislation on safety and health, like much of Mexican labor law, is relatively advanced and provides substantial protection for workers. Article 123 of the Constitution sets the foundation from which all regulations and administrative guidelines pertaining to occupational health and safety are derived. It also establishes the jurisdiction of state and federal authorities in the enforcement of health and safety legislation.

Article 123 of the Constitution is implemented primarily in two laws: the Federal Labor Law (Ley Federal del Trabajo) and the Social Security Law (Ley del Seguro Social), the latter a comprehensive statute that also includes health care and workers' disability compensation.

In 1978 the Government instituted a major revision of the Federal Labor Law dealing with occupational safety and health to incorporate its obligations under International Labor Organization Conventions. Revisions provide that the safety of the workplace is the direct responsibility of the employer, who must report accidents, create health and safety committees to review working conditions, and train workers to prevent job-related injuries.

At the same time that the Government revised the Federal labor law, it enacted the General Regulations for Occupational Health and Safety, an updated version of previous statutes. This comprehensive set of regulations covers virtually all aspects of occupational health and safety for industries, including standards for buildings and worksites; fire prevention; the operation and maintenance of industrial equipment; the handling, transportation, and warehousing of flammable, combustible, explosive, corrosive, irritative or toxic substances; noise; labeling of radioactive materials; workplace temperature, ventilation and lighting; personal safety equipment for head, ears, face, eyes, body and limbs; respiratory protection; workplace hygiene; the establishment of health and safety committees in each workplace; the establishment of a national consultative commission on health and safety; and administrative procedures for the enforcement of labor regulations.

(b) Mechanism for Enforcement of Legal Rights

Mexican health and safety regulations are implemented through a federal/state/local system of tripartite advisory commissions which supplement and elaborate on legal provisions, and plant level committees with equal representation from employers and workers which are responsible for overseeing health and safety on the factory floor. The Secretariat of Labor and Social Welfare is ultimately responsible for enforcement.

The General Regulations for Occupational Health and Safety also provide that a National Consultative Commission on Occupational Health and Safety be created and comprised of members from the Secretariat of Labor and Social Welfare, the Secretariat of Health, and the Mexican Institute of Social Security as well as six members each from the national organizations of workers and employers. The Commission is charged with authorizing health and safety studies, considering their conclusions and presenting them to the Secretariat of Labor. The Commission can also establish subcommittees to study specific areas. Each state and federal district has counterparts to the national commission presided by the governor or federal district administrator. The membership is also tripartite. The state commissions have responsibilities similar to the national commission.

In addition to the state and Federal National Commissions, the General Regulations provide that internal Committees on Occupational Health and Safety be organized at each workplace no later than 30 days after initiation of activities and must be comprised of an equal number of representatives of employers and workers. The employer names half of those on the Committee and the union, or in the absence of one, a majority of workers, designates the other half. All must work at the firm.

The Committees cooperate with labor authorities in investigating accidents and provide recommendations to management for avoiding them. The Committees conduct a physical inspection of the workplace at least once a month noting any hazards observed; they promote health and safety awareness to the labor force and meet and provide written reports on their activities, inspections and decisions.

Employer, worker and labor authorities also promote a preventive medical service at each workplace under the supervision of a medical doctor to assess and improve the general health of the work force. The medical service investigates environmental conditions of the workplace, attempts to detect the outbreak of illness, trains workers in the application of first aid, and provides initial medical attention to injured or sick workers.

Firms employing more than 300 workers are required by law to set up their own health clinics at company expense to supplement the social security health care system. Employers are also required to keep records of accidents and illnesses in the workplace. These statistics are published by labor authorities on an annual basis.

There are two bodies responsible for enforcing the occupational and safety regulations: the Secretariat of Labor and Social Welfare's Directorate General of Federal Labor Inspection and Directorate General of Medicine and Safety in the Workplace.

The Directorate General of Federal Labor Inspections, an agency within the Secretariat of Labor and Social Welfare, has the power to enforce labor regulations, guidelines and associated manuals, notices, etc., with assistance from state and federal district governments. Federal and State inspectors, in addition to enforcing the regulations, provide technical information and advice to workers and employers on how to comply with the regulations. The regulations call for inspectors to visit workplaces at least once every six months, whenever a visit is specifically requested by an interested party, or whenever an accident has occurred.

Employers are required to inform labor authorities whenever an accident has occurred, to permit inspectors to enter the premises of the workplace, to make available all records on health and safety, and to present to the inspectors samples of substances or materials used in the workplace.

If an inspection results in the discovery of unsafe conditions or practices, the employer will be given a reasonable period of time to rectify it. If the employer fails to comply, a penalty will be imposed and an additional period for compliance determined. If the problem has not been corrected, the labor authorities may impose additional fines and close the workplace until the unsafe condition is eliminated.

Fines range from 3 to 315 times the daily minimum salary in effect at the place and time of the infraction. There is an administrative procedure where interested parties may contest the conclusions of the inspection. The fine is doubled for failure to rectify the irregularity within the allotted time.

(c) Labor Practices: Historical Experience

The enforcement of Mexican workplace safety and health laws and regulations depends on the vigilance and quality of the local workplace safety committees, as these committees generate most of the inspections. The safety committees tend to be most effective in large firms with stronger union representation. Some firms, particularly those of small and medium size, do not have such committees. As a consequence, the incidence of industrial accidents appears to be higher at small firms and construction sites, reflecting a lack of sufficient inspection personnel acting independently of complaints from labor representatives.

The Mexican preference is for negotiated rather than imposed solutions to potential violations of safety and health regulations. The majority of cases are resolved in negotiations between unions and employers.

Safety and health in maquiladoras: Most maquiladoras are located in modern industrial structures that have adequate lighting and ventilation, not much different than those found in the United States. Proper handling of hazardous substances in maquiladoras has been identified as an area of concern. In general, foreign firms (mostly from the United States) typically adhere to labor standards and practices consistent with those of their home countries and, in general, tend to have fewer violations than domestic firms.

F. Conclusion

In the context of developing societies, Mexico has an exemplary set of labor laws and standards and has ratified 73 ILO Conventions, which in Mexico carry the force of law. The available evidence points to considerable compliance with labor standards in large firms and where there are strong trade unions. Like other developing and developed countries, compliance with labor standards is a problem in small- and medium-sized businesses, particularly in the informal sector.

II. U.S.-MEXICO COOPERATION ON LABOR MATTERS

The United States and Mexico will pursue bilateral cooperation on labor issues through the framework of the existing U.S.-Mexico Binational Commission (BNC). In March 1991, the two governments agreed to create a Working Group on labor issues under the BNC; the Working Group, chaired by the Secretary of Labor and the Mexican Secretary of Labor and Social Welfare, will hold its first formal meeting in August 1991.

The Department of Labor and the Mexican Secretaria del Trabajo y Prevision Social (Secretariat of Labor and Social Welfare, STPS) are prepared to sign a Memorandum of Understanding (MOU) related to cooperation and information exchanges (attached).

The MOU sets the bases for mutual cooperation and exchanges of information between the two institutions in the areas of, inter alia, health and safety measures; general work conditions, including labor standards and their enforcement; procedures for resolution of labor conflicts; labor statistics; and other areas of concern to the United States and Mexico.

At discussions held April 9-10 with a mission from the STPS, specific areas of cooperation and information exchange were identified and agreed. We expect to sign the MOU in the very near future and to commence work on specific projects.

The understandings reached between the Department of Labor and the STPS represent a significant step forward in cooperation between the two nations in addressing labor issues of common concern. When viewed in conjunction with specific projects for collaboration, the MOU and its implementation hold great promise for progress on a number of labor fronts.

As discussed below, the United States and Mexico have agreed at this time to pursue a number of projects in the areas of occupational safety and health, child labor, and labor statistics.

A. Occupational Safety and Health

Mexican law on occupational safety and health is relatively advanced and provides substantial protection for workers. As is the experience in the U.S., however, standards in Mexico tend to be better enforced in larger firms, with a higher incidence of industrial accidents in small- and medium-sized firms and at construction sites.

As part of its procedures for enforcing health and safety standards, Mexico has institutionalized tripartite (labor, management, and government) commissions, although reportedly these commissions tend to be present mostly in unionized enterprises.

We have agreed with Mexico to pursue under the MOU the following initiatives:

1. The Occupational Safety and Health Administration (OSHA) and STPS will jointly carry out a comparative technical analysis and review of occupational safety and health authorities, regulations, enforcement procedures, accident

and illness reporting requirements, and methods of identifying those industries with high hazards in both countries.

2. OSHA and STPS will jointly organize a technical seminar to present and discuss the findings of the comparative technical analysis and review, with the emphasis on disseminating information about preventive measures in both countries.

3. Upon request by STPS, OSHA will lend technical assistance to STPS in the design and establishment of an industrial hygiene laboratory to analyze samples needed by STPS to evaluate specific workplace conditions and to determine the exposure to risk existing therein.

4. OSHA and STPS will jointly develop a methodology for analysis of specialized industrial hygiene workplace samples when needed and requested by STPS.

5. OSHA and STPS will jointly organize technical seminars to exchange experiences and information about systems to prevent workplace accidents in specific high hazard industries and about cases where the incidence of occupational illness and injuries has been successfully abated.

6. OSHA and STPS will exchange information regarding training systems, protocols and occupational safety and health educational strategies directed at preventing workplace accidents, injuries, and illnesses in hazardous operations such as the operation of machinery and equipment; application of systems to prevent fires, explosions, and emergencies; and the exposure of workers to hazardous chemicals and toxic materials. OSHA and STPS will also exchange specific technical, informational, educational, instructional, and bibliographic materials.

B. Child Labor

Improving compliance with child labor laws is a priority of the Governments of Mexico and the United States. We will seek to cooperate in addressing this problem area through the following initiatives:

1. The Employment Standards Administration (ESA) and STPS -- in cooperation with the U.S. Department of Education and the Mexican Ministry of Education -- will establish a working group that would identify, in both countries, factors that influence early dropping-out of children from schools and measures to prevent this.

2. ESA and STPS will undertake a study of the scope and problem of child labor in the United States and Mexico.

3. ESA and STPS will arrange a meeting of U.S. and Mexican officials with responsibilities in the area of child labor, to share techniques of achieving enforcement and employer compliance with child labor standards.

C. Labor Statistics

The Bureau of Labor Statistics (BLS) will organize jointly with STPS and the Instituto Nacional de Estadistica, Geografia e Informatica (INEGI) a high-level meeting to improve cooperation between the two countries in labor statistics, particularly in the design, collection, preparation, and dissemination thereof. In addition:

1. BLS, STPS, and INEGI will jointly develop a program for the exchange of publications on labor statistics and statistical methods and exchange of bibliographic materials on employment, wages, collective bargaining, workplace accidents and illnesses, and periodical publications of interest to both countries.

2. BLS, STPS, and INEGI will promote the access of technicians of both countries to the international courses that each offers on labor statistics.

   -- BLS, STPS, and INEGI will organize courses on methods of analysis of labor markets as well as on development of productivity indicators at the major sector and industry- or firm-specific levels, for the technical personnel of those institutions.

   -- Other seminars may also be organized by BLS, INEGI, and STPS for Mexican and U.S. staff on topics to improve statistics developed by these organizations.

3. In their meetings, BLS, INEGI, and STPS staff will recommend specific projects to facilitate cooperation among them. These projects may be in such areas as labor force, employment and unemployment statistics, collection of statistics from small economic units, and productivity statistics. In particular, the BLS and STPS will cooperate in the exchange of information on improvement of statistical systems on workplace safety, accidents, and illnesses.

Memorandum of Understanding
Regarding Cooperation
between
The Department of Labor
of the United States of America
and
The Secretariat of Labor and Social Welfare
of the United Mexican States,

Hereinafter Referred to as "The Parties."

I. The Parties share a concern for promoting the rights and interests of workers in the two countries, including the raising of their standard of living, a safe and healthy workplace, with adequate social security medical and financial benefits, all within the democratic framework that is an essential condition for both countries.

II. The Parties desire to promote appropriate cooperation in areas of mutual interest strictly respecting the sovereignty and legal system of each country, through common efforts, and to share and exchange information on the effectiveness of their programs and services.

III. In so doing, the Parties are taking into consideration the differences that for the present are evident between their two economic systems and labor regimes, by which they understand that in any case the following should be taken into account:

(a) The United States system of labor relations is based on the existence of federal and state laws and, in

addition, a large body of federal and state judicial and administrative case law, including the decisions of the National Labor Relations Board. In addition, the U.S. Government is a party to several conventions of the International Labor Organization.

(b) The Mexican system of labor relations is based in the first instance on the Constitution and, in particular (although not the only labor provision), on Article 123, which essentially provides a set of minimum rights and maximum obligations of workers. These rights are regulated by the Federal Labor Law, enacted by the Congress. The States do not have their own labor legislation and neither does the Federal District. There is, in addition, a large body of case law produced by the Supreme Court of Justice of the Nation and by the Circuit Courts, together with the conventions of the International Labor Organization signed by Mexico which have within Mexico the force of implementing regulations of the Constitution.

(c) Because of their great importance in understanding the actual social and labor situation in Mexico and in the United States of America, it is appropriate to analyze the collective bargaining agreements containing work conditions in each country, together with their social security systems.

The Parties have agreed, in principle, on the following:

1. To achieve the benefits derived from this

memorandum Parties will develop the activities specified below or as may be agreed subsequently, all in the utmost spirit of cooperation.

2. The Parties agree to undertake exchanges of information and other forms of cooperation described below within the context of the activities of the United States of America-Mexico Binational Commission.

3. The areas of cooperation and exchange of information will include the following:

(a) Health and safety measures.

(b) General work conditions, including labor standards and their enforcement.

(c) Procedures for resolution of labor conflicts.

(d) Collective bargaining agreements for improvement of work conditions.

(e) Social security systems.

(f) Credit institutions for workers to purchase consumer durables and housing.

(g) Labor statistics.

(h) Quality and productivity.

(i) Other areas that may be mutually agreed upon.

4. Cooperative activities initiated under this memorandum shall be conducted in accordance with the principles of equity, equality, and mutual benefit. This cooperation may be implemented through: (a) exchanges of delegations, professionals, and specialists, for purposes of studying both labor systems; (b) exchanges of information on

averages, standards, and procedures, including publications and monographs; (c) organization of conferences, seminars, workshops, and meetings; (d) development of collaborative projects; (e) joint research projects; or (f) other forms of cooperation that may be mutually agreed upon.

5. All activities undertaken pursuant to this memorandum shall be subject to the respective laws and other applicable provisions in force in the United States of America and in Mexico and do not represent a treaty obligation under international law.

6. The nature and extent of the cooperative activities undertaken pursuant to this memorandum shall be determined by agreement and shall be subject to the availability of personnel and funds duly authorized and appropriated for the purposes in question. Each Party shall bear the costs derived from its own participation, unless otherwise agreed.

7. The channels for coordinating implementation of these understandings shall be for the United States, the Bureau of International Affairs of the Department of Labor, and for Mexico the Secretariat of Labor and Social Welfare.

8. Representatives of the above mentioned offices shall meet as often as necessary to review the implementation of what has been agreed upon and to develop future activities within the framework of this memorandum. Both Parties will designate coordinators for each cooperative activity that is undertaken. The coordinators

shall serve as the initial point of contact for the formalization and development of the joint activities.

9. This memorandum shall take effect from the date of the last signature and shall remain in force for a period of five years. It may be amended or extended by written agreement of the Parties. Either Party may terminate this memorandum 120 days after written notification to the other Party of its intention to do so.

Done at Washington, D.C., and Mexico, D.F., on_____, 1991, in the English and Spanish language, both texts being equally authentic.

For the Department of Labor of the United States of America:	For the Secretariat of Labor and Social Welfare of the United Mexican States:
Lynn Martin	Arsenio Farell Cubillas
Secretary	Secretary

Tab 4

FREE TRADE NEGOTIATIONS WITH MEXICO

ENVIRONMENTAL MATTERS

Introduction

Mexico and the United States are committed to a cooperative program that will encourage sustained economic growth and environmental protection in both countries. President Bush and President Salinas believe that the two are complementary and must be pursued together.

The Government of Mexico knows it faces major environmental problems that threaten the health and well-being of millions of Mexicans.

In recent years, Mexico has taken significant steps to address its environmental problems. Indeed, the Salinas Administration has begun to put in place the legal structure to protect the environment. But the Mexicans also need economic growth to generate resources to transform this commitment into an effective program of regulation, enforcement, and public support. Mexico has over one-third of the U.S. population, but its economy is only 1/25th the size of ours.

The United States can help in two ways:

(1) We can build on our existing program of environmental cooperation (as Part I shows, we are already doing much more than is generally known).

(2) We can negotiate an FTA that will help Mexico grow, contributing to the capabilities and resources it needs. (As indicated in Part IV, certain environmental issues will be addressed in the FTA.)

Rejection of the FTA will in fact hurt those pressing Mexico to adopt a new environmental approach:

-- The Government of Mexico will be less likely to get support from most Mexicans for environmental protection if they are struggling to find work or are eking out their existence.

-- Rejecting the FTA will confirm the suspicions of those who argue that the U.S. and other developed countries are using environmental issues to perpetuate dependency.

The FTA is part of President Salinas' strategy to modernize Mexico. This is an historic opportunity. Trade, not aid, will draw our two nations closer together as neighbors with mutual respect for one another. Our economic integration will give added momentum to cooperative efforts on a number of other common problems including the environment.

This paper is organized into five sections:

I. Ongoing Mexican Environmental Efforts and U.S.-Mexican Cooperation to Protect the Environment

II. Increasing Informed Public Participation

III. Informed Policy Making: Environmental Review

IV. Environmental Trade Issues in the Free Trade Agreement

V. Future Cooperative Efforts to Protect the Environment

I. Ongoing Mexican Environmental Efforts and U.S.-Mexican Cooperation to Protect the Environment

1. General

Mexico has established a good basis for progress on environmental protection and conservation of natural resources. President Salinas has stated that, while seeking to stimulate foreign investment, Mexico will not accept investments that have been rejected by the United States or Canada for environmental reasons.

A key first step of the new Mexican program has been to create a legal framework to address environmental problems.

Mexico is also taking steps to improve its enforcement capabilities and increase the resources dedicated to environmental enforcement.

Both Mexico and the United States recognize there is more to do.

2. Mexico's Environmental Law

In March 1988, Mexico enacted its General Law for Ecological Equilibrium and Environmental Protection. It is a comprehensive statute designed to ensure that there is an adequate legal basis for protecting the environment. Indeed, the law is based in large part on U.S. law and experience.

A central element of the 1988 law is the requirement for environmental impact assessments to be completed on all new investment projects, in both the public and private sectors. To ensure they comply with these requirements, many privately owned companies have already created special environmental offices to analyze the environmental impacts of proposed business activities.

The General Law covers air, water, and soil pollution, contamination by hazardous materials and wastes, pesticides and toxic substances, the conservation of ecosystems and the rational use of natural resources. Mexico has also established administrative sanctions and judicial penalties for non-compliance with environmental statutes.

3. Implementing and Enforcing Environmental Regulations

Mexico has lacked the resources to fully enforce its environmental regulations. The government has made clear that improving enforcement is the next key step. These are not hollow promises: between 1989 and the beginning of 1991, the Government of Mexico imposed some 980 temporary and 82 permanent industrial closures for non-compliance. As part of their continuing enforcement initiative, many additional closings have been imposed in 1991.

The Mexican Government has been increasing funding for this program. The environmental budget for SEDUE, Mexico's Ministry for the Environment, grew from $5 million in 1989 to $39 million in 1991, an almost eight-fold increase. A large percentage of this increase will be used to enhance enforcement efforts and develop additional environmental regulations.

Mexico is also negotiating an $84 million loan from the World Bank that will be used in large part to enhance industrial inspections. Anticipating early approval of the loan, SEDUE recently announced the commitment of Mexican counterpart funds to create 50 new inspector positions for Mexico City and 50 for the U.S.-Mexico border.

SEDUE recently announced plans to create an Office of Environmental Inspection for Industry to oversee and control industries violating environmental standards. This Office will also be empowered to impose punitive sanctions on violators.

The U.S. and Mexico began cooperative enforcement activities in the 1980's. Since then, EPA and SEDUE have conducted on-site inspections and sponsored technical workshops to improve the level of technical expertise among enforcement officials inspecting the maquila industries.

4. Strategy to Combat Mexico City Air Pollution

President Salinas has put a high priority on cleaning up air pollution in Mexico City.

In 1990, the Salinas Administration committed to invest a total of more than $3.5 billion over four years (1990-1994) in a comprehensive plan for air pollution abatement projects in Mexico City. Projects range from supplying unleaded gasoline, to instituting a "one day without a car" program, to increased spending on public transportation, such as adding 20 miles of new subway lines and retrofitting city buses with low-pollution engines and the purchase of 1000 low-pollution buses. This program was partially financed by a new tax on gasoline consumption.

In 1990, as part of the comprehensive plan, Mexico instituted interim proposals to reduce traffic and industrial activity during periods of serious air pollution in Mexico City. Last year, Mexico also made the multi-billion dollar decision to phase out leaded gasoline and ordered all new cars to be equipped with catalytic converters, as well as over 40,000 operating city taxis. The Government has also shut down all 24 military industrial installations in the Mexico City area because of potential environmental risks.

In March, President Salinas ordered Mexico's largest oil refinery to shut down permanently. The PEMEX oil refinery, which accounted for 8 percent of the country's distillation capacity, was responsible for up to 15 percent of Mexico City's industrial air pollution emissions. The cost of shutting down the refinery is estimated to be $500 million and could cost as many as 5000 jobs.

Mexico and the United States signed an agreement on technical cooperation related to Mexico City pollution in 1989. EPA and SEDUE administer action programs dealing with air and water pollution, hazardous waste, and environmental health issues. In addition, the U.S. Department of Energy and the Mexican Petroleum Institute are conducting a multi-million dollar computer model study to understand the pattern of air pollution in Mexico City.

5. Cooperative Efforts to Protect the Border Environment

(a) International Boundary and Water Commission:

The International Boundary and Water Commission (IBWC), established over 100 years ago, has set a strong example for our cooperative efforts to protect the border environment. IBWC, operating under a 1944 treaty in which the U.S. and Mexico direct the Commission "to give preferential attention to the solution of all border sanitation problems," is actively engaged in addressing cross-border water pollution issues, coordinating with EPA and SEDUE on many projects. The Commission is currently planning or constructing major sewage collection and treatment systems at:

-- Tijuana/San Diego: estimated cost $187 million

-- Nogales: estimated cost $11.7 million

-- Nuevo Laredo: estimated cost $35-44 million

(b) 1983 Border Environment Agreement:

In 1983, Mexico and the United States established a new framework for cooperation on border environmental pollution in the La Paz Agreement, supplementing the IBWC by tackling a broader range of pollution problems. Serving as national coordinators, EPA and SEDUE oversee work done under five annexes on air and water pollution, hazardous waste, and accidental spills in the border area.

(c) 1990 Comprehensive Border Environmental Plan:

The two governments expanded their cooperative efforts on the border for a third time in November 1990. Presidents Bush and Salinas called for a new comprehensive long-term border plan to parallel and complement an FTA. Based on an evaluation of the progress made under the 1983 Border Agreement, it is to address problems of air and water pollution, hazardous wastes, chemical spills, pesticides, and enforcement. The plan is to be completed by the end of 1991.

(d) Multilateral Cooperation:

The Pan American Health Organization (PAHO), in close cooperation with U.S. Public Health Service and the Mexican Ministry of Health, is developing a plan to assess priority public health problems along the border. Important among these are environmental health problems related to air pollution, water pollution, and hazardous wastes.

6. U.S.- Mexican Cooperation on Conservation

The U.S. and Mexico have a long history of cooperating on wildlife protection and the conservation of natural resources.

(a) Wildlife Conservation:

The U.S. and Mexico have been partners in conservation since 1936. More recently, the U.S. Fish and Wildlife Service (FWS) entered a cooperative agreement with SEDUE, its Mexican counterpart, in 1975. At present there are nearly 100 projects being done under FWS/SEDUE arrangements. The projects range from conservation and management of migratory bird habitats to the protection of endangered species (such as the jaguar in the Calakmul Preserve) to research on the quetzal, a rare tropical bird of cultural importance to the peoples of the region.

(b) International Wildlife Trade:

The two countries also cooperate extensively on regulating wildlife trade. Mexico has announced that it intends to join CITES, an international convention for the protection of endangered species.

(c) Parks:

Mexico has also established 44 national parks, 8 reserves, and 14 biosphere reserves, totalling 5.7 million hectares (2.8 percent of Mexico's territory). The U.S. National Park Service has had a cooperative arrangement with SEDUE since 1987. They have agreed to 8 joint projects which range from studies of the black bear and peregrine falcon to fire fighter training.

(d) Forests:

The U.S. Forest Service has had a cooperative agreement with Mexico's Forest Service since 1985. Cooperative work is also done under the auspices of the North American Forest Commission (NAFC), involving the U.S., Mexico and Canada. Joint projects include, for example, fire fighter training, cooperative research on insects and pest control, protecting migratory bird habitats, and remote sensing inventories of Mexico's forests.

(e) Marine Resources:

The United States and Mexico are working together in multilateral fora to place stringent restrictions on wastes generated from the normal operation of ships in the Gulf of Mexico. We are operating two cooperative fishery science and research programs -- MEXUS-Gulf and MEXUS-Pacifico -- on fishing technology, endangered species and shared fishery resources.

We are also cooperating in programs to reduce the incidental take of dolphins and sea turtles in Mexican fisheries. While we recognize the need to do more, as a result of Mexico's efforts, dolphins killed per net deployed were down 58 percent between 1986 and 1989. President Salinas announced in 1990 that Mexico would end its commercial harvest of sea turtles, a traditional fishery that employed 400 families. The Government of Mexico also announced that Mexican fisheries would use sea turtle protection devices.

(f) Atmospheric Resources:

Relations between the U.S. and Mexican meteorological services are excellent. There are long-standing cooperative agreements which support the operation of several Mexican meteorological and hydrological sites, and provide for the open exchange of data. These cooperative efforts improve our capability to predict the weather, in particular, to provide early warnings of violent storms such as hurricanes.

(g) Protection of the Ozone Layer:

Mexico, the first country to ratify the Montreal Protocol to protect the ozone layer, continues its efforts to prevent the depletion of ozone in the stratosphere. Government and industry representatives are working closely with EPA scientists on a feasibility study to develop alternatives to the use of chloroflourocarbons (CFCs) and halons which deplete the ozone layer.

II. Increasing Informed Public Participation

We believe it is important to increase our understanding of the relation between trade and environmental protection. To this end, USTR will include a representative of the non-governmental environmental organizations on the Advisory Committee on Trade Policy and Negotiations (ACTPN).

Environmental representatives will also be invited to participate in the following trade policy advisory committees:

--Intergovernmental Policy Advisory Committee (IGPAC)

--Services Policy Advisory Committee (SPAC)

--Investment Policy Advisory Committee (INPAC)

--Industry Policy Advisory Committee (IPAC)

--Agricultural Policy Advisory Committee (APAC)

Through participation on advisory committees, these environmental representatives will assist us in our negotiations on a Free Trade Agreement with Mexico and in future trade negotiations.

In addition, EPA will consult closely with non-governmental organizations on environmental issues as they arise in the context of ongoing U.S.-Mexico environmental relations.

III. Informed Policy Making: Environment Review

We believe that a review of U.S.-Mexico environmental issues is appropriate as we embark upon closer economic integration. Such a study should appropriately include possible environmental effects of a free trade agreement, in particular drawing on our analysis of border environmental issues.

Accordingly, USTR will coordinate an interagency review, drawing on the resources of agencies with environmental expertise and in consultation with interested members of the public. It is our understanding that the Government of Mexico will conduct a study focusing on similar issues, including the possible environmental effects in Mexico of a free trade agreement. We would encourage it to do so and will offer to make available such technical expertise as it may find useful.

To prepare the study, we propose to initiate the following process:

- We will consult with interested members of the public.
- We will include the results of the study in a report addressing U.S.-Mexico environmental issues generally, including border environmental issues.
- The report addressing environmental issues concerning the United States and Mexico, including possible environmental effects of the FTA, will be published in a timely fashion so that the information obtained may be taken into account, in particular, by U.S. officials in connection with the FTA negotiations and other consultations.

IV. Environmental Trade Issues in the Free Trade Agreement

We intend to include environmental issues related to trade in the FTA.

In our negotiations on the FTA with Mexico, we will be guided by the following principles:

- The United States will not agree to weaken U.S. environmental and health laws or regulations as part of the FTA, and we will maintain enforcement of them.

- The United States will not agree to weaken existing U.S. pesticide, energy conservation, toxic waste or health and safety standards in the FTA and we will maintain enforcement of them.

- The United States will maintain the right of each party to undertake any verifying measures within its own territory that are necessary for the enforcement of technical regulations and standards to protect human health and the environment, consistent with principles of non-discrimination.

- The United States will maintain the integrity of the U.S. regulatory process, which is based on available scientific evidence, provides for public participation, and is consistent with the principle of non-discrimination.

Further, in keeping with existing trade agreements and based on our experience with those agreements, our position will be to negotiate the following elements as integral parts of the FTA:

(1) Maintain our rights, consistent with other international obligations, to limit trade in items or products controlled by international treaties to which the U.S. is party, including:

   - Trade in an endangered species pursuant to the Convention on International Trade in Endangered Species (CITES).

   - Trade in whale products pursuant to the International Whaling Convention.

   - Trade in CFCs and other ozone-depleting substances pursuant to the Montreal Protocol to the Vienna Convention for the Protection of the Ozone Layer.

(2) Maintain our rights to prohibit the entry of goods that do not meet our health, safety, pesticide, food and drug, and environmental regulations, so long as such regulations are based on sound science, do not arbitrarily discriminate against imports or constitute a "disguised" trade barrier.

(3) Work together to enhance environmental, health and safety regulatory standards regarding products based on sound scientific evidence:

- o Share scientific and technical information to develop an improved common basis for health, safety and environmental standards.
- o Assure public participation in the regulatory process.

(4) Work together to promote improved enforcement of standards:

- o Hold joint meetings to discuss enhancement of enforcement capability, quality assurance programs, inspection training and monitoring and verification.
- o Exchange information in areas including analytical methodologies and the interpretation of laboratory results.
- o Assist in training programs to instill Good Laboratory Practices, and to help implement other aspects of sound inspection and compliance programs.

V. Future Cooperative Efforts to Protect the Environment

As outlined in Part I, we already have a well-established network of cooperative environmental arrangements with Mexico upon which we can build for the future.

It would be a great mistake to replace this increasingly successful cooperative approach with a series of dictates that would establish the "admission price" for economic cooperation. Such a demand will have the opposite effect from what we hope: the Mexican people, who today want to clean up their environment because they recognize it is in their own interest, will resent and resist environmental dictates that they may perceive as impugning their own commitment and as a form of eco-protectionism.

In parallel with our negotiations on the FTA, we intend to expand our cooperative programs under existing arrangements. We also expect to take new initiatives. We want to proceed, as we have in the past, in the spirit of cooperation, reciprocity, and mutual respect.

We envisage entering into discussions with Mexico on the following cooperative environmental arrangements:

1. Environment
   - (a) Border Issues
   - (b) Enforcement
   - (c) Technical Cooperation and Training
2. Conservation
   - (a) Wildlife Conservation
   - (b) Parks and Natural Preserves
   - (c) Forests and Forest Management
   - (d) Living Marine Resources
   - (e) Youth Conservation Corps
3. Information Sharing and Public Participation
   - (a) Public Release of Data
   - (b) Procedures for Research
4. Dispute Consultation Mechanism

1. ENVIRONMENT

In general, we will seek consultative procedures to address activities in one country that might cause environmental damage in the other country. We will also seek agreement to periodic consultations on evolving environmental laws and regulations.

(a) Border Issues

There are concerns that a Free Trade Agreement could result in a dramatic increase in economic activity along the border, burdening the environmental infrastructure and leading to additional pollution problems. Under the FTA, companies will no longer have a special incentive to locate production operations

in maquiladoras, many of which until recently had to locate in the border area in order to receive favorable tariff treatment. Nevertheless, improvements in conditions along the border are in the interest of both countries. In this respect, our existing arrangements provide the foundation for future cooperative work on border environmental issues.

In particular, we will seek to:

- Prepare a long-term integrated Border Environmental Plan by the end of 1991, prior to the completion of FTA negotiations. Its implementation would largely parallel and complement the FTA, which would probably have a transition period of approximately the same duration. (The U.S.-Canada FTA has a 10-year transition period.)

- The Border Environmental Plan will address border environmental problems related to:

  -- Air and water pollution

  -- Hazardous waste

  -- Chemical spills

  -- Pesticides

  -- Enforcement

In addition, we want to:

- Establish a process for public comment on the Border Environmental Plan and its implementation.

- Commit to prepare a comprehensive review of the Border Environmental Plan periodically. This review will include consideration of whether the Plan should be modified to include other border environmental problems.

- Strengthen procedures for monitoring of and emergency response to transboundary pollution episodes.

- Continue to mobilize and assess future resources for border pollution control.

(b) Enforcement

Both countries would benefit from enhanced enforcement activities and coordination. We envisage entering into discussions on the feasibility of coordinating enforcement arrangements to enhance the enforcement capabilities of both countries.

- o Establish a process of consultation on the implementation of our cooperative arrangements and our respective environmental standards.
  - -- Provide the opportunity for the public to submit data to appropriate national authorities on alleged non-compliance.
- o Expand cooperative enforcement activities, including:
  - -- Coordinated targeting of potential environmental violators where there are significant adverse transboundary impacts.
  - -- Cooperative enforcement actions in areas such as the disposal and transportation of hazardous waste.
- o Establish procedures for enforcement actions related to transboundary pollution episodes.
- o Enforcement-specific technical cooperation and training.
  - -- Enhance the Emergency Response Plan for Mexico and the U.S. border area.
  - -- Assess the feasibility of developing a system to ensure the safe transportation of hazardous materials across the border.
  - -- Strengthen procedures for the exchange of monitoring equipment.
    - Coordinate procedures and training for equipment use.

(c) Technical Cooperation and Training

Personnel must be adequately trained and equipped. Therefore, it is important that we improve the exchange of experts of both countries. To this end, we plan to enter discussions to:

- Establish a "business committee" to assist small to medium sized Mexican businesses in meeting standards:
  - -- Including, inter alia, sharing experience and expertise, preparing plans for bringing plants and operations up to current requirements, seminars, and technical exchanges.
- Establish a system-wide exchange of relevant scientific/technical data and information.
- Establish a process for assessing the need for technical assistance.
- Facilitate the transfer of technology for the environment.
- Promote development of technology for the environment.
- Enhance consideration of potential health problems and environmental risk.
  - -- Review the current U.S. program implementing regulations addressing border health problems with a view to providing additional assistance to environmentally threatened border areas with low population densities.
- Improve the public health infrastructure in the border area, emphasizing capacity building, training, and operation of data systems.
- Expand cooperative training programs.
- Establish a cooperative program for sharing laboratory facilities.
- Assess the feasibility of Eximbank credits or guarantees for the acquisition of pollution control equipment or other U.S. goods and services to improve Mexico's environment.

U.S. agencies are already deeply involved in technical cooperation to overcome Mexico City pollution; but we would like to improve on existing arrangements. To this end, we hope to establish:

- o Procedures for assessing ongoing efforts to combat Mexico City air pollution.

- o The feasibility of undertaking pilot projects to address multi-media pollution, such as air, water and waste.

2. CONSERVATION

The Government of Mexico has established a sound conservation record. Yet we believe our existing cooperative efforts can be expanded. We seek a joint effort with Mexico on the following items:

(a) Wildlife Conservation

-- Encourage Mexico to sign the Convention on International Trade in Endangered Species (CITES).

-- Enhance cooperative efforts to stem trade in endangered and threatened species.

-- Enhance cooperative efforts on North American migratory bird programs and wetlands conservation.

-- Expand cooperative training programs utilizing the new Fish and Wildlife Service training laboratory.

(b) Parks and Natural Preserves

-- Commit to establish counterpart parks or natural preserves along the border adjacent to existing U.S. National Parks.

-- Undertake studies to assess the feasibility of establishing new parks along the border in the U.S.

(c) Forests and Forest Management

-- Improve cooperative efforts in the use of remote sensing to inventory Mexico's tropical forests.

-- Undertake efforts related to tropical forests.

APPENDIX

Congress of the United States
Washington, DC 20515

March 7, 1991

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

On March 1, you officially notified the Congress of your request to extend the so-called fast-track procedures for implementation of trade agreements. As you know, unless either the House of Representatives or the Senate passes a disapproval resolution before June 1, 1991, such procedures would be automatically extended for agreements entered into during a two-year period ending on June 1, 1993. This authority would be applicable to bilateral or multilateral trade agreements, including the proposed North American free trade agreement and completion of the Uruguay Round.

We recognize that extension of such authority is necessary if the Administration is to have any credibility in pursuing negotiations within either a multilateral or bilateral context. You should be aware, however, that this process will not be easy.

A number of Members of Congress have expressed concern about the proposed extension of fast-track authority, particularly as it applies to the proposed free trade agreement with Mexico. They have identified a number of legitimate concerns that, in our judgment, should be addressed in a meaningful way before Congress considers the extension of fast-track authority. Specific concerns include the disparity between the two countries in the adequacy and enforcement of environmental standards, health and safety standards and worker rights.

While we recognize that issues such as these are not typically addressed in a trade agreement, we believe that such issues need to be addressed in this case, either within the agreement itself or through some appropriate alternative context, within the same time frame as the trade negotiations.

The time period for Committee deliberations on the issue of the proposed extension of fast-track procedures expires on May 15. We, therefore, request that you provide us, by May 1, your

thoughts on how the Administration intends to address these and other relevant issues. Such an action plan is essential to the Congress as we deliberate on your fast-track request. More importantly, successful implementation of such an action plan is likely to be exceedingly critical when and if the Congress considers approval of any trade agreement which results from the negotiations. Whether such an agreement is ultimately approved by the Congress will depend on an assessment of whether the agreement has a net positive effect on jobs and wages in the United States.

We also strongly believe that the Administration should not commit itself to an unrealistic time frame to conclude the negotiations. Some Administration officials have publicly stated that they expect the negotiations with Mexico and Canada to be concluded by the end of this year. We do not believe that such a time frame recognizes the complexity of the issues that need to be addressed. Thus, we urge the Administration to use whatever time period may be necessary to resolve the numerous issues critical to the economic interests of the United States, which will serve to maximize Congressional support for the ultimate agreement.

Finally, as you know, it is absolutely essential that the Administration consult fully with the Congress on these and other important issues throughout the negotiations.

We look forward to working with you on these important issues.

Sincerely yours,

Lloyd Bentsen

Lloyd Bentsen, Chairman
Committee on Finance
United States Senate

Dan Rostenkowski

Dan Rostenkowski, Chairman
Committee on Ways and Means
U.S. House of Representatives

RICHARD A. GEPHARDT
MISSOURI
MAJORITY LEADER

Congress of the United States
House of Representatives
Office of the Majority Leader
Washington, DC 20515-6502

March 27, 1991

President George Bush
The White House
Washington, D.C.

Dear Mr. President:

I am writing to respond to your letter seeking my support for renewal of authority to speed Congressional approval of future trade agreements, the so-called fast track procedures. Congressman Rostenkowski and Senator Bentsen have already provided you with the benefit of their expertise on this issue. But, as Majority Leader in the House, I am designated under the law to introduce the implementing legislation for the GATT Uruguay Round and a possible U.S.-Mexico agreement. Consequently, I thought it might be useful to share with you some of my own views on this important issue.

I am prepared to lend my full support to a North American Free Trade Zone if the agreement fights for American jobs and exports, preserves the world's environment, and defends the rights of Mexican workers. As one who cares deeply about the effect of trade policies on working Americans, my concern is that our trade negotiators keep uppermost in their minds the impact of this Agreement on American jobs, American companies and American exports.

Therefore, my support for the Administration's proposed North American Free Trade Area is contingent upon the inclusion of assurances that American jobs will not be lost in droves.

Like you, I want the Mexican economy to flourish and grow. Relying on low wages and unsafe working conditions as comparative advantages to lure away high-paying American jobs will not save the Mexican economy -- but it will further weaken the American economy. In order for Mexico to prosper, America must prosper. So for a free trade agreement to be a meaningful benefit to both nations, it must contain provisions that will stem any hemorrhage of American jobs across the border.

For that reason I request that you not limit the talks to what used to be traditionally known as "trade issues" -- tariffs, trade-related investment restrictions, dispute resolution and the like -- but rather that we address North American Free Trade systematically.

To do so will require discussing issues like transition measures, wage disparity, environmental protection and worker rights. Neither Mexico nor Canada nor America is benefitted by a system that benignly looks on massive air pollution, poisonous pesticides and child labor as "comparative advantages." And I cannot imagine that Congress would approve an agreement that did.

The grant of authority to proceed with negotiations under the fast track procedure is an extremely important one for Congress to make. I understand the increased complexity and difficulty of negotiating an agreement with a trading partner or a number of trading partners without the ability to proceed under the fast track procedure. At the same time, I am unwilling to support an extension of fast track without assurances that Congress and the Administration are true partners in these negotiations rather than adversaries.

Thus, I am writing to outline what I believe we should be seeking to achieve both in the current GATT Uruguay Round as well as the possibly upcoming U.S.-Mexico-Canada North American Free Trade Agreement (NAFTA) negotiations. Negotiated properly, these agreements will enhance economic opportunity and growth in this country and around the world. But negotiated poorly, they could cause U.S. workers and exporters to suffer grievously in economic terms.

I am hopeful that you will respond specifically to the issues outlined in my letter so that we can work together towards a GATT and North American Free Trade Agreement.

GATT Uruguay Round

I believe, as you do, that the GATT Uruguay Round could provide the U.S. and the world with a vastly improved international trading system. The possibility of achieving more uniform rules of trade in each of the negotiating areas could provide enormous benefits to U.S. workers, farmers and businesses.

The 1988 Omnibus Trade Act outlined 16 negotiating objectives for the Uruguay Round [19 U.S.C. 2901] and requires the Administration to report on your progress in achieving them. Despite the assurances in reports that your Administration has forwarded to Congress, I cannot now determine what progress has been made on many of these objectives.

And, based on press reports, discussions with Administration officials and representatives of our trading partners, I cannot now define what specific actions your Administration is contemplating in the GATT Uruguay Round to fulfill the Congressional objectives

Indeed, in several areas, progress within the GATT Uruguay Round has been less than anticipated by Congress when it stated its objectives in the 1988 Act. For example, little or no progress has been made as part of the GATT Uruguay Round in expanding worker rights or in gaining access to markets for our high-technology products.

We must judge a GATT Agreement as a whole. At the same time, we must be unwilling to settle for an Agreement that does not enhance the international competitiveness of our economy, ranging from agriculture to services to manufacturing. We must reject any efforts to diminish the effectiveness of those U.S. trade laws that are already on the books.

Upon its completion, we must look at how an Agreement is to be implemented and enforced based on the possibility of new dispute resolution provisions. In the past, there has been a dramatic difference between the way that Congress and the Administration view our trade laws: The Administration views the U.S. as a defendant while the Congress views the U.S. as a plaintiff.

As a result of these different views, we should be wary of a strong dispute resolution mechanism if the underlying agreements in each of the 14 negotiating areas aren't completely acceptable. If a strong dispute resolution mechanism is combined with weak agreements, a lower standard is locked-in which, in essence, thereby diminishes our ability to protect the rights of American workers, farmers and businesses.

Finally, I must emphasize that the U.S. should not trade away any provision of our trade law such as dumping/countervail, Section 301 or the other vital tools that Congress has provided to work for a more level playing field.

North American Free Trade Agreement

I believe a negotiation with Mexico and Canada that will result in a North American Free Trade Agreement could be in our country's best interests. At the same time, I am deeply concerned about what the possible effects of an agreement could be.

The economic studies that have been published on a possible agreement not only are tentative in their conclusions but are based on assumptions that may have no connection with reality. It is disturbing that the Administration has yet to produce an economic impact analysis and, it appears from a number of discussions, has no intention of producing an impact analysis.

An official analysis by the Administration is really the only way we can truly judge what the effects of an agreement might be. Unless a study is based on the assumptions of those who are in fact negotiating the Agreement, the study will not assist us in our debates.

One of the most comprehensive studies done to date was published recently by the International Trade Commission. In its study, the ITC indicated:

> "(T)he Commission analysis suggests that an FTA with Mexico will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale. Since these gains are likely to outweigh the costs, the U.S. economy will probably gain on net."

This is not exactly a ringing endorsement of the idea of proceeding with an agreement. I truly want to assist Mexico and the Mexican people in terms of expanding economic growth and opportunity. But I refuse to accept the notion that the American worker should shoulder the burden of reaching an agreement. For this reason, I respectfully request that you direct the appropriate officials to provide me with the economic analysis on which you based your decision to proceed with the negotiations of a NAFTA. Congress and the American people have a right to know what is at stake before entering into negotiations under the limitations of the fast track.

I understand that your present intention is to proceed with a negotiation with as limited an agenda as possible. But, we must not exclude those issues which will help determine the competitive nature of our future relations or that will help to improve the quality of life in our countries.

Those issues that appear to be on the agenda are tariffs, intellectual property, trade-related investment restrictions and dispute resolution. While we must have the best possible provisions in a final agreement in each of these areas, this list is simply not sufficiently comprehensive to address the issues that are most important to our bilateral economic future.

Let me also share with you my thoughts on which issues should be addressed as part of a negotiation:

Escape Clause:

The prospect for potential job loss exists in a number of important industrial sectors. Because there has been no officially released Administration study of the impact of a proposed NAFTA, it is difficult to project what impact on jobs and our industrial base there will be.

Accordingly, it is important that a comprehensive escape clause provision be included as part of the negotiating framework that can act as a stop-gap measure to stem the loss of jobs and business opportunities if there is a hemorrhaging in any one sector. This provision should have an effective trigger that will allow us to ameliorate any negative impact on a sector and reassess what course of action to take.

I cannot stress strongly enough how important this issue is. We must be prepared to continuously examine and reexamine the progress of a NAFTA to ensure that the interests of American farmers and workers are protected.

Rules of Origin:

I assume that the discussion of rules of origin would be included as part of the NAFTA negotiations. I want to comment specifically, however, on how important I believe a strict standard for any rule of origin proposal is to a successful agreement.

Our nation faces an historic trade deficit. Industry after industry has faced the onslaught of fierce foreign competition that has forced many firms to close or request government help in opening markets and fighting unfair competition at home.

As we enter into negotiations on a NAFTA we must not allow Mexico to become an export platform for the products of third countries to flood our markets. Development of business opportunities by third countries that is designed to aid the Mexican economy rather than fill the coffers of the foreign parent company should be our goal.

Accordingly, I believe that we must have a very strict rule of origin standard regarding production in Mexico.

Transition:

Every study that has been done on the effects of a NAFTA recognizes that there will be dislocations in our labor market resulting from an agreement. I do not believe that the American worker should have to shoulder the cost of providing economic growth and opportunity to Mexico and its people.

Even in the absence of economic analysis, it is implausible that transition relief will not be needed by workers in industries harmed by the NAFTA. Accordingly, I believe that you must make a commitment to providing help to those who might be disadvantaged as a result of an agreement. This includes not only a commitment to expanded unemployment insurance for these individuals, but also appropriate training and retraining programs.

Additionally, transition relief measures should be examined that will allow companies adversely affected by a NAFTA to receive government help in finding new markets for their products and converting to new lines of business.

This must be a commitment not only to providing the governmental support mechanisms that are necessary, but also to funding these programs as well. American workers and American firms deserve no less.

Additionally, we must recognize that the US-Canada FTA will be phased in over a ten-year period. It is possible that we may need to allow for as long, if not longer, a phase in period in the case of Mexico. We may also want to examine the possibility of phasing in the provisions of a final agreement based on increasing standards of living in Mexico. This will provide the Mexican government with the incentives to continue with their liberalization programs as well as providing U.S. workers with a greater protection against a competitive policy based on wage differentials alone. At the same time, if we see substantial benefits, as in the US-Canada FTA, we may wish to accelerate the phase in process.

Wage Disparity:

One of the principal issues that is raised by the NAFTA is the question of how we address the substantial wage and standard of living disparity that exists between our two countries. Our goal must be to raise the wages and standard of living of Mexicans, not lower our own.

I am interested as to what steps might be taken to address this issue -- perhaps the most important issue involved in these negotiations.

Environment:

Without a provision on environmental controls, this agreement is likely to increase pollutants in and from Mexico and drain jobs from the U.S. needlessly.

Last year, with your help, Congress passed an historic Clean Air Act. In this legislation we committed ourselves to increasing environmental quality in this country while striking a balance between environmental quality and economic growth. Similar legislative action has occurred in the areas of water quality and pesticide residues, and in many other important areas.

In discussions with members of your Administration as well as Mexican authorities, I have noted a reluctance on the part of these officials to address important environmental concerns as part of the scope of these negotiations. I believe that these concerns must be part of the negotiating agenda. The more than 1700 businesses currently operating in the maquiladora program are threatening both the environment as well as the health of countless people on both sides of the border. Additionally, studies have shown that emissions from industries in other parts of Mexico have affected areas far beyond our common border.

The Clean Air Act and other U.S. environmental laws do add to the cost of doing business. In addition to the health and quality of life impact of Mexico's more lax environmental standards and enforcement, I am concerned that many American companies may relocate their operations because of this "comparative advantage." We must not allow this to happen. It would not be in the United States' or Mexico's best interest.

Indeed, it is tough for U.S. companies to compete against firms that operate under more lax environmental enforcement schemes. This laxity can, in fact, operate as a subsidy.

A number of Members of Congress have requested that an environmental assessment of a NAFTA be conducted. I would also ask that environmental issues be included on the negotiating agenda.

As part of this, I would hope that the question of pesticide use by Mexican farmers be given appropriate attention. While our farmers can compete against the best any country has to offer, they can not and should not have to compete against farmers who use pesticides that fail to meet U.S. standards. While we certainly can reduce the risks to our citizens through inspection of all agricultural products crossing our border, a better approach would be to agree to eliminate the use of these pesticides and harmful chemicals, thereby protecting the health and safety of our consumers and allowing for a freer flow of goods. This will help protect the health of the Mexican people as well.

Worker Rights:

A final agreement must include provisions that protect the fundamental rights of workers. Parties to the NAFTA must recognize that all countries have a common interest in respecting the fundamental rights of workers, in the achievement and maintenance of fair labor standards, and in the improvement of wages and working conditions. Among the provisions that a NAFTA should include are:

- Respect for freedom of association.
- Respect for the right to organize and bargain collectively, including on a regional basis across national boundaries.
- Prohibition of the use of any form of forced or compulsory labor.
- Establishment of a minimum age for the employment of children.
- Acceptable conditions with respect to wages and hours of work.

We must recognize the role that the NAFTA can play in promoting worker rights. We must refuse to accept an agreement that fails to provide real economic opportunity to the Mexican people. We must address both the substantive law and the procedural safeguards in this important area.

As part of this negotiation, we must also include the provision of proper health and safety standards for workers. We should seek to establish appropriate health and safety provisions that will prohibit accelerated development from occurring at the cost of worker's health and safety.

Labor Mobility:

I believe that the issue of labor mobility must be carefully considered. As we look to the future, we must understand the pressure that may be exerted on the wages of lower-skilled workers in this country if the issue of labor mobility is not critically addressed.

More specifically, I am very concerned about the prospect of substantial numbers of Mexican workers entering the U.S. labor market, even if only on a temporary basis. As you know, the U.S.-Canada FTA established procedures for temporary entry of Canadian citizen business persons into the United States and to facilitate temporary entry on a reciprocal basis between the U.S. and Canada.

Since the regulations were first issued in this area, there has been a considerable liberalization of the regulations to allow for new classes of entrants under the agreement. While the impact has been marginal, the possible impact under a NAFTA is much greater, if similar rules are applied to Mexico.

Indeed, as part of Mexico's submission in the GATT Uruguay Round, the government stated "The expansion of the service exports of developing countries and their increased participation in world trade in services depends on the liberalization of cross border movements of personnel covering unskilled, semi-skilled, and skilled labor, and that effective access to markets for their service exports can mainly be realized through this mode of delivery."

Human Rights:

The Salinas government has begun to move against police and government officials accused of human rights violations. We must commend the Salinas government. But, we must also use the NAFTA negotiations as a means of support for the Salinas government to make further efforts to curb human rights abuses.

Conclusion

In conclusion, I believe strongly in the goal of assisting Mexico and its people in terms of economic development and opportunity. But, we must not be willing to sacrifice the jobs and livelihood of American workers.

I believe an agreement can be reached that is in all of our best interests. We must not rush -- the stakes are too high. But, we must not be reluctant to accept the challenges.

If the areas I have outlined above are among the issues included in North American Free Trade Agreement negotiations, I believe that we should proceed. We must, however, be flexible and recognize that issues such as governmental ownership, debt relief, transportation regulation, exchange rates, subsidies and many others may arise that need to be addressed as well.

Ambassador Hills has raised the question of whether it would be acceptable for certain issues to be raised on a parallel track to the "core" negotiations. This depends on the commitment and intentions of your Administration and the Mexican Government. If the intention is simply to allow these negotiations to occur on a parallel track and allow them to die on the vine, that is unacceptable. If there is a true commitment to address these issues, then I am open to discussion as to the format under which the negotiations should occur. While certain issues might be addressed on a parallel track, Congress must be presented with a single piece of implementing legislation at the end of the process incorporating final agreements in all areas. We will also be looking for assurances as to what commitments the Mexican government will undertake. When Congress votes at the end of this process, it must see tangible results.

Roughly two-thirds of all Mexican exports are purchased in the United States. Conversely, Mexico purchases only about six percent of our exported products. We must understand the power of this fact as we enter into negotiations. We both have a great deal to gain, but we must not rush blindly towards an agreement.

Congress must be a partner in these negotiations. If we are able to agree on the scope of the negotiations, that will only start, not end the process. I look forward to working with you and members of your Administration throughout this period and beyond with the goal of reaching a final agreement.

Yours very truly,

Richard A. Gephardt

Richard A. Gephardt

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